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**Post Hearing Information Pack of  
Ever Smart International Holdings Limited**  
**永駿國際控股有限公司**  
**(the “Company”)**  
*(Incorporated in the Cayman Islands with limited liability)*

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## IMPORTANT

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## EVER SMART INTERNATIONAL HOLDINGS LIMITED

永駿國際控股有限公司

*(Incorporated in the Cayman Islands with limited liability)*

[REDACTED]

Number of [REDACTED] : [REDACTED]  
[REDACTED] : HK\$[REDACTED] per [REDACTED]  
(plus brokerage of 1%, SFC  
transaction levy of 0.0027% and  
Stock Exchange trading fee of  
0.005%, payable in full on  
application)  
Nominal Value : HK\$0.01 each  
Stock Code : [REDACTED]

[REDACTED] and [REDACTED]

[REDACTED]

Sole Sponsor

 **KINGSTON CORPORATE FINANCE**

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The obligations of our Underwriters under the Underwriting Agreement to subscribe for and to procure subscribers for the [REDACTED] are subject to termination by any of our Sole Sponsor and our [REDACTED] (for itself and on behalf of our Underwriters) upon the occurrence of any of the events set forth in the section headed “Underwriting – Underwriting arrangements and expenses – Grounds for termination” in this [REDACTED] at any time prior to 8:00 a.m. (Hong Kong time) on the [REDACTED].

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## CHARACTERISTICS OF GEM

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## EXPECTED TIMETABLE

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[REDACTED]

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### IMPORTANT NOTICE TO PROSPECTIVE INVESTORS

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

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## SUMMARY AND HIGHLIGHTS

*This summary aims to give you an overview of the information contained in this [REDACTED]. Since it is a summary, it does not contain all the information that may be important to you, and is qualified in its entirety by, and should be read in conjunction with, the full text of this [REDACTED]. You should read this [REDACTED] in its entirety before you decide to invest in the [REDACTED]. There are risks associated with any investment. Some of the particular risks in investing in the [REDACTED] are set out in the section headed “Risk factors” in this [REDACTED]. You should read that section carefully before you decide to invest in the [REDACTED].*

### OUR BUSINESS

We provide footwear design and development, production management (including quality control) and logistics management service. We have built a diverse global customer portfolio comprising mainly international wholesalers and retailers which are brand owners and/or licensees of formal and casual footwear. During the Track Record Period, most of our footwear was exported overseas with shipment destinations covering more than 30 countries.

### OUR BUSINESS MODEL

Our designers provide our customers with product designs created either by themselves or based on our customers’ design ideas and concepts. When our customers have their designated designs, our design team offers design ideas and suggestions on product improvements. We outsource footwear manufacturing to quality footwear suppliers in China with which we have established reliable and long term relationship. To ensure the quality of footwear, we closely monitor product quality throughout the production process. We also manage the logistics arrangements of finished footwear and, after product delivery, liaise with our customers for after-sale feedback on our footwear and services so that we can continuously refine and improve our standards.

### OUR PRODUCTS

We offer formal and casual footwear for men, women and children to our customers. We target low to middle end footwear sectors. Please refer to the section headed “Business – Products” in this [REDACTED] for further details of the selling price range and the revenue breakdown of our footwear during the Track Record Period.

Set out below are the average selling price, sales volume and gross profit margin of our footwear during the Track Record Period:

|                               | For the year ended<br>31 December 2013 |                          |                                | For the year ended<br>31 December 2014 |                          |                                | For the year ended<br>31 December 2015 |                          |                                |
|-------------------------------|--|--------------------------|--------------------------------|--|--------------------------|--------------------------------|--|--------------------------|--------------------------------|
|                               | Average<br>selling<br>price<br>HK\$    | Sales<br>volume<br>pairs | Gross<br>profit<br>margin<br>% | Average<br>selling<br>price<br>HK\$    | Sales<br>volume<br>pairs | Gross<br>profit<br>margin<br>% | Average<br>selling<br>price<br>HK\$    | Sales<br>volume<br>pairs | Gross<br>profit<br>margin<br>% |
| Men’s formal footwear         | 146.99                                 | 665,993                  | 12.7%                          | 119.52                                 | 958,649                  | 12.8%                          | 128.79                                 | 1,185,909                | 13.9%                          |
| Men’s casual footwear         | 64.45                                  | 391,408                  | 8.1%                           | 58.80                                  | 751,171                  | 12.2%                          | 60.59                                  | 806,229                  | 11.7%                          |
| Women’s formal footwear       | –                                      | –                        | N/A                            | –                                      | –                        | N/A                            | 153.75                                 | 2,006                    | 9.3%                           |
| Women’s casual footwear       | 53.19                                  | 217,682                  | 8.6%                           | 50.83                                  | 342,024                  | 11.1%                          | 43.32                                  | 377,366                  | 13.2%                          |
| Children’s formal<br>footwear | 116.46                                 | 366,477                  | 6.6%                           | 102.14                                 | 426,223                  | 11.2%                          | 103.41                                 | 651,657                  | 14.0%                          |
| Children’s casual footwear    | 91.68                                  | 1,374,915                | 13.3%                          | 88.91                                  | 270,839                  | 14.6%                          | 85.26                                  | 200,132                  | 15.8%                          |

During the Track Record Period, our Group provided a wide variety of footwear with different styles and types of raw materials which led to a broad range of selling price of our footwear. The average selling price of each footwear category in the above table represents the sales generated from a particular footwear category divided by the total sales volume of

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## SUMMARY AND HIGHLIGHTS

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that category for the respective year. Accordingly, the average selling price would be affected by the product order mix from our customers during the year. The declining trend of the average selling price of different footwear categories over the Track Record Period was mainly attributable to the increase in sales volume of (i) formal footwear made of less costly materials such as PU; and (ii) casual footwear with simple styles and inexpensive materials such as flip flops. Nevertheless, we were generally able to improve the gross profit margin for our footwear during the Track Record Period except for a slight decrease in the gross profit margin of our men’s casual footwear for the year ended 31 December 2015 as the sales of casual footwear with simple styles and inexpensive materials, which generally commanded a lower gross profit margin than other types of casual footwear, continued to rise. Furthermore, we were able to expand the sales volume of different footwear categories during the Track Record Period, notwithstanding the decrease in sales volume of children’s casual footwear mainly due to our decision to terminate the business relationship with a Russian customer, which was a wholesaler of children’s casual footwear, in early 2014. Please refer to the section headed “Business – Customers – Our five largest customers” in this [REDACTED] for further details.

### Pricing policy

We adopt a cost plus pricing model and our footwear are priced separately for each purchase order, which depends primarily on, among other things, production costs as quoted to us by our footwear suppliers and our Group’s expected margins. The manufacturing price charged by our footwear suppliers include the cost of raw materials, while all raw materials of our footwear are procured by our footwear suppliers.

### Geographical coverage of the sale of our footwear

For the three years ended 31 December 2015, sales to overseas customers accounted for approximately 98.8%, 97.7% and 98.5% of our total revenue, respectively. Please refer to the section headed “Business – Products” in this [REDACTED] for the revenue breakdown by shipment destination of the footwear we sold to our customers for the Track Record Period.

## OUR CUSTOMERS

Our customers comprise mainly international wholesalers and retailers which are brand owners and/or licensees of formal and casual footwear. We have established a customer base of 45, 39 and 39 customers for the three years ended 31 December 2015, respectively. Please refer to the section headed “Business – Customers” in this [REDACTED] for information on some of our major customers during the Track Record Period and up to the Latest Practicable Date.

Sales to our five largest customers amounted to approximately HK\$241.0 million, HK\$162.9 million and HK\$229.6 million, respectively, which accounted for approximately 79.4%, 66.8% and 75.9% of our total revenue for the three years ended 31 December 2015, respectively. Sales to our largest customer amounted to approximately HK\$95.0 million, HK\$79.5 million and HK\$92.3 million, respectively, which accounted for approximately 31.3%, 32.6% and 30.5%, respectively, of our total revenue for the three years ended 31 December 2015.

## OUR SUPPLIERS

Our suppliers are mainly footwear suppliers. As at the Latest Practicable Date, almost all of our footwear suppliers were located in the PRC. Please refer to the section headed “Business – A. Pre-production – 2. Selection of footwear suppliers” for information about the arrangements between our Group and our footwear suppliers. We have maintained good business relationships with our major footwear suppliers. For the three years ended 31 December 2015, we had purchased from 52, 35 and 36 footwear suppliers, respectively. Up to the Latest Practicable Date, we had established a relationship of approximately 3 to 7 years with our five largest footwear suppliers for the Track Record Period.



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## SUMMARY AND HIGHLIGHTS

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Our purchases from our five largest suppliers (all being footwear suppliers) amounted to approximately HK\$201.0 million, HK\$156.8 million and HK\$194.0 million, respectively, which accounted for approximately 79.4%, 76.4% and 76.8%, respectively, of our total purchases for the three years ended 31 December 2015. Our purchases from our largest supplier amounted to approximately HK\$124.1 million, HK\$120.7 million and HK\$129.3 million, respectively, which accounted for approximately 49.0%, 58.8% and 51.2% of our total purchases, respectively, for the three years ended 31 December 2015.

### OUR COMPETITIVE STRENGTHS

Our Directors believe that we have the following competitive strengths:

- our experienced management team with international and extensive industry exposure ensures the successful development of our business;
- close relationship with reliable footwear suppliers;
- our comprehensive footwear design and development, production management and logistics management service adds value to our customers; and
- stringent quality assurance and control measures ensure that our products are of high quality to satisfy international branded customers’ needs.

Please refer to the section headed “Business – Our competitive strengths” in this [REDACTED] for further details.

### OUR BUSINESS OBJECTIVES AND STRATEGIES

Our business objectives are to maintain our growth in footwear design and development, production management and logistics management service industry and enhance our overall competitiveness and market share. To achieve our business objectives, we will implement the following business strategies:

- broadening our customer base and product offerings;
- enhancing design, development and production management capabilities;
- obtaining licences of multiple brands;
- enhancing our corporate image; and
- improving our information technology system.

Please refer to the section headed “Business – Our business objectives and strategies” in this [REDACTED] for further details.

### COMPETITIVE LANDSCAPE

According to Frost & Sullivan, footwear design and development, production management and logistics management service providers can be categorised into three tier groups based on features including their scope of service, total revenue, target footwear sectors and manufacturing capability. Please refer to the section headed “Industry overview – Analysis of China’s footwear design and development, production management and logistics management service industry – Competitive landscape” in this [REDACTED] for further details. According to Frost & Sullivan, we are in the tier 2 group comprising over 500 footwear design and development, production management and logistics management service providers as we possess the following features which are similar to other tier 2 group service providers: (i) in addition to selecting OEMs and sourcing footwear for brand owners and licensees, we offer comprehensive value-added services, such as design and quality control to our customers; (ii) our Group recorded revenue of approximately HK\$303.4 million, HK\$243.7 million and HK\$302.7 million for the three years ended 31 December 2015, respectively, which is within the range of the total annual revenue of HK\$100 million

## SUMMARY AND HIGHLIGHTS

to HK\$500 million of the footwear design and development, production management and logistics management service providers in the tier 2 group; (iii) we target low-end to middle-end footwear sectors with an aim of diversifying our customer base and expanding our scale of operation; and (iv) our Group has established reliable and long-term relationships with a number of quality footwear suppliers despite not having our own manufacturing capability. According to Frost & Sullivan, (i) our Group had a market share, in terms of revenue, of approximately 0.2% of the total revenue of the China footwear design and development, production management and logistics management service industry of approximately HK\$143 billion in 2014; and (ii) our Group was one of the three largest footwear design and development, production management and logistics management service providers in the tier 2 group in China in 2014. Based on the foregoing, our Directors believe that our Group was in the leading position in the tier 2 group of footwear design and development, production management and logistics management service providers in China. Our Directors consider that our Group is competitive in the footwear design and development, production management and logistics management service industry in view of the reputation that we have been building over the years of our operations since 2009, our good business relationships with our footwear suppliers and our major customers as well as our product quality and pricing.

### SHAREHOLDERS

Immediately following completion of the [REDACTED] and the Capitalisation Issue and without taking into account any Shares that may be issued pursuant to the exercise of any options that may be granted under the Share Option Scheme, our Company will be owned as to [REDACTED]% by Asia Matrix, being an investment holding company incorporated in the BVI and directly wholly owned by Mr. KW Ho. Mr. KC Ho, being the father of Mr. KW Ho and a co-founder of our Group, is deemed to be a Controlling Shareholder for the purposes of the GEM Listing Rules, though he has not been interested in any share of our Group since January 2014 and has not held any position in our Group since November 2014. Please refer to the section headed “Relationship with Controlling Shareholders” in this [REDACTED] for further details.

### SUMMARY OF FINANCIAL PERFORMANCE

The following table sets out a summary of the audited consolidated financial information of our Group for the three years ended 31 December 2015. Please refer to the Accountants’ Report set out in Appendix I to this [REDACTED] for further details.

#### Summary of consolidated statements of profit or loss

|   | For the year ended 31 December |           |           |
|---|--------------------------------|-----------|-----------|
|   | 2013                           | 2014      | 2015      |
| Revenue (HK\$’000)  | 303,439                        | 243,742   | 302,672   |
| Cost of sales (HK\$’000)  | (268,342)                      | (213,278) | (261,474) |
| Gross profit (HK\$’000)   | 35,097                         | 30,464    | 41,198    |
| Gross profit margin   | 11.6%                          | 12.5%     | 13.6%     |
| Profit for the year attributable to owner of our Company (HK\$’000) | 10,549                         | 8,406     | 6,436     |

#### Year ended 31 December 2014 compared with year ended 31 December 2013

##### Revenue

Decrease in our revenue from approximately HK\$303.4 million for the year ended 31 December 2013 to approximately HK\$243.7 million for the year ended 31 December 2014 was primarily attributable to a decrease in sales to a Russian customer from approximately HK\$95.0 million for the year ended 31 December 2013 to approximately HK\$1.3 million for the year ended 31 December 2014 due to our decision to cease our business relationship with such Russian customer in early 2014, after considering its increasing credit risk resulting from the abrupt devaluation of Ruble and economic instability in Russia. During the two years ended 31 December 2014, sales to this Russian customer amounted to

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## SUMMARY AND HIGHLIGHTS

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approximately HK\$95.0 million and HK\$1.3 million respectively whilst gross profit generated from sales to this customer amounted to approximately HK\$11.7 million and HK\$32,000 respectively. Our Directors believe that if our Group continued our business relationship with this Russian customer, our Group might be exposed to further risks considering (i) the deterioration of the Russian economy since 2014 as, according to Frost & Sullivan, the nominal GDP of Russia had declined from approximately USD2.08 trillion in 2013 to approximately USD1.86 trillion in 2014 with further forecasted decrease to approximately USD1.18 trillion in 2015; and (ii) Russia having been sanctioned by the U.S. government, the EU and the Australian government since March 2014. The decrease in sales was partially offset by an increase of approximately HK\$41.7 million in revenue from sales of our footwear to customers with shipment destinations in Australia, United Kingdom, New Zealand, United Arab Emirates and the US, being developed countries in which we strategically focused on expanding our sales to international branded customers and diversifying our customer base.

### *Cost of sales*

Our costs of sales decreased from approximately HK\$268.3 million for the year ended 31 December 2013 to approximately HK\$213.3 million for the year ended 31 December 2014, which was mainly attributable to (i) decrease in purchase costs from our footwear suppliers of approximately HK\$48.0 million which was in line with the decrease in our revenue; (ii) decrease in staff and other costs of approximately HK\$2.4 million mainly due to dismissal of our staff engaged in sample making as we intended to outsource such process to Independent Third Parties; and (iii) decrease in other costs of approximately HK\$4.6 million primarily attributable to a reduction in (a) sample and molding fees as part of such costs were borne by certain footwear suppliers in view of our established business relationship; and (b) other overhead as a result of our cost control measures.

### *Gross profit and gross profit margin*

As a result of the foregoing, our gross profit decreased by approximately HK\$4.6 million from approximately HK\$35.1 million for the year ended 31 December 2013 to approximately HK\$30.5 million for the year ended 31 December 2014, while our gross profit margin increased from approximately 11.6% for the year ended 31 December 2013 to approximately 12.5% for the year ended 31 December 2014.

### *Profit attributable to owner of our Company*

Decrease in profit attributable to owner of our Company from approximately HK\$10.5 million for the year ended 31 December 2013 to approximately HK\$8.4 million for the year ended 31 December 2014 was primarily due to (i) decrease in gross profit of approximately HK\$4.6 million as stated above; and (ii) increase in non-recurring [REDACTED] expenses of approximately HK\$[REDACTED] million, partially offset by a decrease in selling and distribution expenses of approximately HK\$3.5 million mainly resulting from (a) decrease in commissions paid for business development; and (b) decrease in entertainment and travelling expenses as a result of our cost control measures.

### *Year ended 31 December 2015 compared with year ended 31 December 2014*

#### *Revenue*

Our revenue increased from approximately HK\$243.7 million for the year ended 31 December 2014 to approximately HK\$302.7 million for the year ended 31 December 2015, which was mainly due to the increase in our sales of formal footwear for men and children, partially offset by a slight decrease in sales for casual footwear for children resulting primarily from the product mix of orders from our customers during the year.

#### *Cost of sales*

Our cost of sales increased from approximately HK\$213.3 million for the year ended 31 December 2014 to approximately HK\$261.5 million for the year ended 31 December 2015, which was principally attributable to increase in purchase costs from our footwear

## SUMMARY AND HIGHLIGHTS

suppliers of approximately HK\$47.4 million as a result of the increase in our sales for the year. While almost all of our sales are denominated in US dollars, the depreciation of Renminbi in August 2015 against other currencies, in particular US dollars, has benefited our Group as we have negotiated with some of our PRC footwear suppliers which agreed to reduce the price of some of the footwear they supplied to us. The purchase cost to sales ratio decreased from approximately 84.2% for the year ended 31 December 2014 to approximately 83.5% for the year ended 31 December 2015.

### *Gross profit and gross profit margin*

As a result of the foregoing, our gross profit increased from approximately HK\$30.5 million for the year ended 31 December 2014 to approximately HK\$41.2 million for the year ended 31 December 2015, and our gross profit margin increased from approximately 12.5% for the year ended 31 December 2014 to approximately 13.6% for the year ended 31 December 2015.

### *Profit attributable to owner of our Company*

Decrease in profit attributable to owner of our Company from approximately HK\$8.4 million for the year ended 31 December 2014 to approximately HK\$6.4 million for the year ended 31 December 2015 was mainly due to (i) increase in non-recurring [REDACTED] expenses of approximately HK\$[REDACTED] million; (ii) increase in selling and distribution expenses of approximately HK\$3.7 million which was mainly attributable to (a) increase in staff costs relating to the appointment of Mr. Tan, who is primarily responsible for, among others, the sales activities of our Group; (b) increase in freight and insurance charges in respect of sales under CIF terms; and (c) increase in entertainment expenses for maintaining business relationship with our customers; (iii) increase in administrative expenses of approximately HK\$1.9 million which was principally due to (a) increased staff costs relating to newly recruited staff in our finance department during the year ended 31 December 2015; and (b) increase in consultancy fees for accounting and secretarial services; and (iv) decrease in other income of approximately HK\$2.9 million mainly due to the receipt of an one-off compensation payment of approximately HK\$2.7 million in 2014 from a Russian customer for the cancellation of purchase orders, partially offset by the increase in gross profit of approximately HK\$10.7 million as stated above.

### *Gross profit margin*

The gross profit margin of our Group for each of the three years ended 31 December 2015 was approximately 11.6%, 12.5% and 13.6% respectively, which was within the range of the gross profit margin of 10% to 20% of the footwear design and development, production management and logistics management service providers in the tier 2 group as set out in the Frost & Sullivan Report. Please refer to the section headed “Industry overview – Analysis of China’s footwear design and development, production management and logistics management service industry – Competitive landscape” in this [REDACTED] for further details.

### **Summary of consolidated statements of financial position**

|                     | <b>As at 31 December</b> |                 |                 |
|---------------------|--------------------------|-----------------|-----------------|
|                     | <b>2013</b>              | <b>2014</b>     | <b>2015</b>     |
|                     | <i>HK\$'000</i>          | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Non-current assets  | 6,347                    | 8,798           | 3,053           |
| Current assets      | 70,449                   | 67,903          | 87,005          |
| Current liabilities | 50,696                   | 66,183          | 73,805          |
| Net current assets  | 19,753                   | 1,720           | 13,200          |
| Net assets          | 25,875                   | 9,137           | 15,766          |

## SUMMARY AND HIGHLIGHTS

### Summary of consolidated statements of cash flows

|  | For the year ended 31 December |          |          |
|--|--------------------------------|----------|----------|
|  | 2013                           | 2014     | 2015     |
|  | HK\$'000                       | HK\$'000 | HK\$'000 |
| Operating cash flows before movements in working capital | 15,064                         | 12,422   | 11,386   |
| Net cash from (used in) operating activities             | 584                            | 3,285    | (6,203)  |
| Net cash (used in) from investing activities             | (29,025)                       | (13,888) | 5,662    |
| Net cash from financing activities                       | 15,920                         | 9,239    | 2,989    |

### Key financial ratios

|                            | As at/For the year ended |       |       |
|----------------------------|--------------------------|-------|-------|
|                            | 31 December              | 2014  | 2015  |
|                            | 2013                     | 2014  | 2015  |
| Current ratio (times)      | 1.4                      | 1.0   | 1.2   |
| Return on equity (%)       | 40.7                     | 92.0  | 40.8  |
| Return on total assets (%) | 13.7                     | 11.0  | 7.1   |
| Debt to equity ratio (%)   | 30.7                     | 258.4 | 130.5 |

Our debt to equity ratio increased from approximately 30.7% as at 31 December 2013 to approximately 258.4% as at 31 December 2014 principally due to the decrease in our total equity as at 31 December 2014 primarily related to the payment of a dividend of HK\$26.0 million during the year ended 31 December 2014 as well as the increase in bank borrowings and bank overdrafts of approximately HK\$18.4 million as at 31 December 2014 mainly due to increased utilisation of trust receipt loans for trade finance purposes.

The decrease in our debt to equity ratio from approximately 258.4% as at 31 December 2014 to approximately 130.5% as at 31 December 2015 was principally due to (i) increase in our total equity as at 31 December 2015 as we recorded profit for the year of approximately HK\$6.4 million; and (ii) decrease in bank overdrafts from approximately HK\$3.9 million as at 31 December 2014 to nil as at 31 December 2015.

### Net profit margin and normalised net profit margin

Our Group recorded a net profit margin of approximately 3.3%, 3.4% and 2.1% for the three years ended 31 December 2015, respectively. Decline in our net profit margin from approximately 3.4% for the year ended 31 December 2014 to approximately 2.1% for the year ended 31 December 2015 was primarily attributable to the incurrence of [REDACTED] expenses of approximately HK\$[REDACTED] million during the year ended 31 December 2015. The table below sets forth our profit and normalised profit, which is adjusted for the non-recurring [REDACTED] expenses, for the years indicated:

|                                | For the year ended 31 December |               |               |
|--------------------------------|--------------------------------|---------------|---------------|
|                                | 2013                           | 2014          | 2015          |
|                                | HK\$'000                       | HK\$'000      | HK\$'000      |
| Profit for the year            | 10,161                         | 8,404         | 6,436         |
| Add: [REDACTED] expenses       | [REDACTED]                     | [REDACTED]    | [REDACTED]    |
| Normalised profit for the year | <u>10,161</u>                  | <u>10,760</u> | <u>13,721</u> |
| Net profit margin              | 3.3%                           | 3.4%          | 2.1%          |
| Normalised net profit margin   | 3.3%                           | 4.4%          | 4.5%          |

Without taking into account the non-recurring [REDACTED] expenses, the normalised net profit margin of our Group for each of the three years ended 31 December 2015 was approximately 3.3%, 4.4% and 4.5%, respectively, which was within the range of the net profit margin of 3% to 5% of the footwear design and development, production management and logistics management service providers in the tier 2 group as set out in the Frost &



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## SUMMARY AND HIGHLIGHTS

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Sullivan Report. Please refer to the section headed “Industry overview – Analysis of China’s footwear design and development, production management and logistics management service industry – Competitive landscape” in this [REDACTED] for further details.

After being adjusted for the non-recurring [REDACTED] expenses, our Group recorded an increase in normalised net profit margin to approximately 4.4% for the year ended 31 December 2014 from approximately 3.3% for the year ended 31 December 2013. The increase was primarily due to our effective cost control measures mainly resulting in (i) an improvement of our gross profit margin from approximately 11.6% for the year ended 31 December 2013 to approximately 12.5% for the year ended 31 December 2014 (please refer to the section headed “Financial information – Discussion of selected components of our results of operations – Review of historical operating results – Year ended 31 December 2014 compared with year ended 31 December 2013” in this [REDACTED] for further details); and (ii) decrease in selling and distribution expenses by approximately 48.2% as compared to those for the year ended 31 December 2013. To effectively control costs and expenses, we have undertaken certain cost control measures since January 2014 which include, among other things, (i) establishing authority limits for approval of expenses; and (ii) convening monthly meetings to compare our financial performance with the monthly budget prepared by our finance team and conducting investigation for any irregularities.

During the year ended 31 December 2015, we continued to undertake the said cost control measures and our gross profit margin increased from approximately 12.5% for the year ended 31 December 2014 to approximately 13.6% for the year ended 31 December 2015 (please refer to section headed “Financial information – Discussion of selected components of our results of operations – Review of historical operating results – Year ended 31 December 2015 compared with year ended 31 December 2014” in this [REDACTED] for further details). As illustrated in the table above, our normalised net profit margin of approximately 4.5% for the year ended 31 December 2015 was maintained at a similar level as that for the year ended 31 December 2014. Our Directors estimate that, as a result of our implementation of the cost control measures since January 2014 as mentioned above, we were able to achieve saving in costs and expenses of approximately HK\$3.4 million during the period from January 2014 and up to the Latest Practicable Date.

Going forward, in order to enhance our net profit margin, our Group will (i) continue to undertake cost control measures; (ii) endeavor to achieve our business objectives of maintaining our growth in the footwear design and development, production management and logistics management service industry as well as enhancing our overall competitiveness and market share by implementing the business strategies as described in the section headed “Business – Our business objectives and strategies” in this [REDACTED]; and (iii) closely monitor the costs associated with the implementation plan to be carried out by us based on our Group’s business strategies as referred to in the section headed “Future plans and use of proceeds – Implementation plan” in this [REDACTED].

### HISTORICAL NON-COMPLIANCE INCIDENTS

During the Track Record Period, our Group failed to comply with certain legal requirements applicable to our Group in Hong Kong and the PRC, namely (i) non-compliance with Government lease, deed of mutual covenant and occupation permit in Hong Kong; (ii) non-compliance with contribution of social insurance and housing provident funds in the PRC; and (iii) breach of land use restriction in respect of our leased property in the PRC. Please refer to the section headed “Business – Legal compliance and proceedings” in this [REDACTED] for further details of such non-compliance incidents and the rectification measures taken.

### [REDACTED] EXPENSES

The estimated [REDACTED] expenses are approximately HK\$[REDACTED] million, of which approximately HK\$[REDACTED] million for the issue of new Shares is expected to be accounted for as a deduction from equity and approximately HK\$[REDACTED] million has been or will be charged to our profit or loss prior to or upon completion of the [REDACTED]. For the three years ended 31 December 2015, we have incurred [REDACTED] expenses of [REDACTED], approximately HK\$[REDACTED] million and

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## SUMMARY AND HIGHLIGHTS

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HK\$[REDACTED] million, respectively. For the remaining [REDACTED] expenses, we expect to charge approximately HK\$[REDACTED] million to our profit or loss for the year ending 31 December 2016. We also wish to emphasise that our current estimated expenses in relation to the [REDACTED] set forth above are for reference only and the final amount to be recognised as our profit or loss for the year ending 31 December 2016 may be different and our estimation is also subject to changes in variables and assumptions at the relevant time. Our financial performance is expected to be adversely affected by the [REDACTED] expenses to be charged to our profit or loss for the year ending 31 December 2016.

### RECENT DEVELOPMENTS AND NO MATERIAL ADVERSE CHANGE

According to our unaudited consolidated financial information for the three months ended 31 March 2016, our revenue for the three months ended 31 March 2016 increased by approximately 27.7% as compared to that for the corresponding period in 2015, which was mainly due to the increase in our sales of formal footwear for men and children as well as casual footwear for men and women. Our gross profit margin improved slightly for the three months ended 31 March 2016 as compared to that for the corresponding period in the previous year mainly due to our success in negotiating with some of our footwear suppliers to lower their manufacturing prices in view of the recent depreciation of Renminbi as mentioned above in this section. As at the Latest Practicable Date, our Group had received confirmed sales orders of approximately HK\$110.5 million.

Our Directors expect that our operating expenses will increase for the year ending 31 December 2016 due to (i) the increase in rental expenses for leasing of a new office incorporating a showroom in Hong Kong and the increase in staff costs resulting from the recruitment of additional staff (please refer to the section headed “Business – Our business objectives and strategies” in this [REDACTED] for further details); and (ii) increase in freight and insurance charges in respect of sales under CIF terms. If our Group fails to control our operating expenses effectively, our profitability will be adversely affected.

Our Directors confirm that, save for the above and as disclosed in “[REDACTED] expenses” above in this section, there has been no material adverse change in the market condition in the industry in which we operate or the financial or trading position or prospects of our Group since 31 December 2015 (being the date to which the latest audited consolidated financial statements of our Group were made up) and up to the date of this [REDACTED].

### USE OF PROCEEDS

Our Company intends to, through the [REDACTED], enhance our Group’s profile and market recognition as well as increase our visibility in the footwear design and development, production management and logistics management service industry so as to promote our Group and our footwear to potential customers and the public. The [REDACTED] will provide our Group with fund raising channels in the stock market and is expected to enable our Group to obtain bank financings at more favourable terms to finance our future development. Besides, the net proceeds from the [REDACTED] will strengthen our Group’s financial position and enable our Group to pursue the business plans as set out in the section headed “Future plans and use of proceeds – Implementation plan” in this [REDACTED]. We estimate that the net proceeds to be received by us from the [REDACTED], after deducting the underwriting commission and related expenses payable by our Company in the aggregate amount of approximately HK\$15.0 million, will be approximately HK\$[REDACTED] million. We intend to apply the net proceeds from the [REDACTED] as follows:

## SUMMARY AND HIGHLIGHTS

| Intended use   | Amount and approximate % of net proceeds<br>HK\$ million |
|--|--|
| ● Broadening our customer base and product offerings                       | [REDACTED]   |
| ● Enhancing our design, development and production management capabilities | [REDACTED]   |
| ● Obtaining licences of multiple brands                                    | [REDACTED]   |
| ● Enhancing our corporate image  | [REDACTED]   |
| ● Improving our information technology system                              | [REDACTED]   |
| ● General working capital and other general corporate uses of our Group    | [REDACTED]   |

## FOREIGN CURRENCY EXPOSURE AND EXCHANGE RATES

Our revenue is denominated in USD due to the export-oriented nature of our business and our expenses, comprising primarily our payment to our footwear suppliers, are also mainly in USD, which is the functional currency of our Group. As HKD is pegged to USD, we do not expect any significant fluctuation in the exchange rate of HKD against USD. We currently do not undertake any foreign currency hedging. Our management will continue to monitor our foreign currency exposure.

Our footwear suppliers receive payment from us in USD while they pay for their production costs mainly in RMB. Any appreciation of RMB against USD would reduce the payment received by our footwear suppliers in terms of RMB. If our footwear suppliers request us to increase the manufacturing price, we are generally able to pass on such increase to our customers. Further, in the event of appreciation of USD against other currencies (including those of our export countries and the PRC), the price of our footwear in terms of the respective currency would increase. If our customers request us to reduce our selling price, we would negotiate with our footwear suppliers to lower their manufacturing price. Under such circumstances, our footwear suppliers would normally agree to the reduction in their manufacturing price in view of the devaluation of RMB against USD. In addition, we would make suggestions to our customers to use less costly raw materials, such as by replacing leather with PU, so that the selling price to our customers in USD could be maintained. In view of the above, fluctuations in foreign exchange rates did not have any significant impact on our Group’s operations and financial performance during the Track Record Period and up to the Latest Practicable Date.

## DIVIDENDS

Ever Smart declared dividend during the year ended 31 December 2014 in the sum of HK\$26 million to Ever Sound, which in turn declared dividend in the same amount to Mr. KW Ho. Such dividend was fully settled in December 2014. Save for the above, no dividends have been declared and paid by the companies now comprising our Group to their then respective shareholders during the Track Record Period and up to the Latest Practicable Date. After completion of the [REDACTED], our Shareholders will be entitled to receive dividends only declared by our Company. Any amount of dividends to be declared and paid by our Company will be at the discretion of our Directors. Therefore, there is no assurance that any particular dividend amount, or any dividend at all, will be declared and paid in the future. Please refer to the section headed “Financial information – Dividends” in this [REDACTED] for further details.

## RISK FACTORS

There are risks associated with your investment in the [REDACTED], among which, the relatively material risks are:

- we derived a significant portion of our revenue from our five largest customers during the Track Record Period, and if our relationship with them deteriorates or terminates, our business and results of operations would be adversely affected;
- we do not have long-term purchase commitments from our customers, which exposes us to potential volatility in our turnover;



## SUMMARY AND HIGHLIGHTS

- our business is largely dependent on global and regional economic condition; and
- fluctuations on foreign exchange rates may materially and adversely affect the financial condition and results of operations of our Group.

You should read the entire section headed “Risk factors” in this [REDACTED] carefully before you decide to invest in the [REDACTED].

### [REDACTED] STATISTICS

Market capitalisation<sup>1</sup> HK\$[REDACTED]

Unaudited pro forma adjusted consolidated net tangible asset value per Share<sup>2</sup> HK\$[REDACTED]

#### Notes:

1. The calculation of the market capitalisation of the Shares is based on the [REDACTED] of HK\$[REDACTED] and [REDACTED] Shares in issue immediately following completion of the [REDACTED] and the Capitalisation Issue.
2. The unaudited pro forma adjusted consolidated net tangible asset value per Share is calculated after making the adjustments referred to in Appendix II to this [REDACTED] and on the basis of a total of [REDACTED] Shares expected to be in issue immediately following completion of the [REDACTED] and the Capitalisation Issue.

### BUSINESS ACTIVITIES IN SANCTIONED COUNTRIES

During the Track Record Period, our footwear was sold to customers in Russia, Venezuela and Iraq, which have become Sanctioned Countries since March 2014, March 2015 and August 1990, respectively. The table below sets forth revenues from sales to customers in each of these three countries and the corresponding percentage of our total revenues during the Track Record Period:

|                          | Year ended<br>31 December 2013 |                           | Year ended<br>31 December 2014 |                           | Year ended<br>31 December 2015 |                           |
|--------------------------|--------------------------------|---------------------------|--------------------------------|---------------------------|--------------------------------|---------------------------|
|                          | HK\$'000                       | % of our<br>total revenue | HK\$'000                       | % of our<br>total revenue | HK\$'000                       | % of our<br>total revenue |
| Russia <sup>(1)</sup>    | 94,962                         | 31.3                      | 1,220                          | 0.5                       | nil                            | nil                       |
| Venezuela <sup>(2)</sup> | 3,670                          | 1.2                       | nil                            | nil                       | nil                            | nil                       |
| Iraq <sup>(3)</sup>      | nil                            | nil                       | nil                            | nil                       | 53                             | 0.0                       |
| <b>TOTAL</b>             | <b>98,632</b>                  | <b>32.5</b>               | <b>1,220</b>                   | <b>0.5</b>                | <b>53</b>                      | <b>0.0</b>                |

#### Notes:

1. Russia has been sanctioned by the U.S. government, the EU and the Australian government since March 2014.
2. Venezuela has been sanctioned by the U.S. government since March 2015.
3. Iraq has been sanctioned by the U.S. government, the United Nations, the EU and the Australian government since August 1990.

As advised by DLA Piper Hong Kong, our legal advisers as to International Sanctions Laws, (i) our Group’s sales in Russia, Venezuela and Iraq during the Track Record Period and up to the Latest Practicable Date are activities that do not breach the International Sanctions Laws that apply to our Group; and (ii) given the scope of the [REDACTED] and the expected use of proceeds from the [REDACTED], the involvement by parties in the [REDACTED], including our Group, the investors of our Company, our Shareholders, the Stock Exchange, HKSCC and HKSCC Nominees, does not implicate the applicability of International Sanctions Laws on such parties. Please refer the section headed “Business – Business activities in Sanctioned Countries” in this [REDACTED] for further details.

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## DEFINITIONS

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*Unless the context otherwise requires, the following expressions have the following meanings in this [REDACTED].*

|   |   |
|---|---|
| “Alliance”                              | Alliance International Sourcing Limited, a company incorporated in Hong Kong with limited liability on 2 August 2010 and an indirect wholly-owned subsidiary of our Company   |
| “Alliance Footwear”                     | Alliance Footwear International Pty Limited, a company incorporated in Australia with limited liability on 28 May 2009, which is owned as to 50% by a former director and shareholder of Alliance and as to 50% by an Independent Third Party, and is a connected person of our Company |
| “Articles” or “Articles of Association” | the articles of association of our Company conditionally adopted on 11 May 2016 and to become effective on the [REDACTED], as amended from time to time, a summary of which is set out in Appendix III to this [REDACTED]   |
| “Asia Matrix”                           | Asia Matrix Investments Limited, a company incorporated in the BVI with limited liability on 9 January 2015, which is wholly owned by Mr. KW Ho and is one of our Controlling Shareholders  |
| “associate(s)”                          | has the meaning ascribed thereto under the GEM Listing Rules  |
| “Australia”                             | the Commonwealth of Australia   |
| “Betastar”                              | Betastar Trading Limited (沛士達貿易有限公司), a company incorporated in Hong Kong with limited liability on 17 March 1989, which was owned as to 45% by Mr. KC Ho and as to 55% by two Independent Third Parties, and was dissolved in March 2015   |
| “Board” or “Board of Directors”         | the board of Directors  |
| “business day”                          | any day (other than a Saturday, and Sunday or public holidays in Hong Kong) on which banks in Hong Kong are generally open for normal banking business  |
| “BVI”                                   | the British Virgin Islands  |
| “CAGR(s)”                               | compound annual growth rate(s)  |

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## DEFINITIONS

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|---|--|
| “Capitalisation Issue”  | the capitalisation of an amount of HK\$[REDACTED] from the amount standing to the credit of the share premium account of our Company as set out in the section headed “A. Further information about our Company and our subsidiaries – 3. Written resolutions of the sole Shareholder” in Appendix IV to this [REDACTED] |
| “CCASS”   | the Central Clearing and Settlement System established and operated by HKSCC   |
| “CCASS Clearing Participant”                                    | a person admitted to participate in CCASS as a direct clearing participant or general clearing participant   |
| “CCASS Custodian Participant”                                   | a person admitted to participate in CCASS as a custodian participant   |
| “CCASS Investor Participant”                                    | a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation  |
| “CCASS Participant”   | a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant  |
| “China” or “PRC”  | the People’s Republic of China excluding, for the purpose of this [REDACTED], Hong Kong, Macau Special Administrative Region of the PRC and Taiwan   |
| “Companies Law” or “Cayman Companies Law”                       | the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, as amended, supplemented or otherwise modified from time to time   |
| “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” or “our Company”                                      | Ever Smart International Holdings Limited (永駿國際控股有限公司), an exempted company incorporated in the Cayman Islands with limited liability on 6 February 2015   |

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## DEFINITIONS

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| “Confirmatory Deed”        | the confirmatory deed dated 25 October 2014 (as supplemented on 16 September 2015) executed by Mr. KC Ho and Mr. KW Ho to acknowledge and confirm, among other things, that they were parties acting in concert in relation to our Group, details of which are set out in the section headed “History, Reorganisation and corporate structure – Parties acting in concert” in this [REDACTED] |
| “connected person(s)”      | has the meaning ascribed to it under the GEM Listing Rules  |
| “Controlling Shareholders” | has the meaning ascribed to it under the GEM Listing Rules and, in the context of our Company, means the controlling shareholders of our Company, namely, Mr. KW Ho, Asia Matrix and Mr. KC Ho  |
| “D&S”                      | Dodge & Swerve Limited, a company incorporated in Hong Kong with limited liability on 5 December 2013, and an indirect wholly-owned subsidiary of our Company   |
| “Deed of Indemnity”        | the deed of indemnity dated 11 May 2016 entered into by our Controlling Shareholders in favour of our Company (for ourselves and as trustee for each of our subsidiaries) relating to, among other matters, the tax liabilities of our Group  |
| “Deed of Non-Competition”  | the deed of non-competition dated 11 May 2016 entered into by our Controlling Shareholders in favour of our Company (for ourselves and as trustee for each of our subsidiaries), as more particularly set out in the section headed “Relationship with Controlling Shareholders – Non-competition undertakings” in this [REDACTED]  |
| “Director(s)”              | the director(s) of our Company  |
| “EU”                       | the European Union  |
| “Ever Sky”                 | Ever Sky (HK) Trading Limited (天恒(香港)貿易有限公司), a company incorporated in Hong Kong with limited liability on 3 December 2009 and an indirect wholly-owned subsidiary of our Company  |

## DEFINITIONS

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| “Ever Smart”                                     | Ever Smart International Enterprise Limited (永駿國際企業有限公司), a company incorporated in Hong Kong with limited liability on 6 August 2008 and an indirect wholly-owned subsidiary of our Company   |
| “Ever Sound”                                     | Ever Sound International Limited (永聲國際有限公司), a company incorporated in Hong Kong with limited liability on 26 June 2008, which is wholly owned by Mr. KW Ho  |
| “footwear suppliers” or “our footwear suppliers” | collectively, OEMs (including, if any, export companies in the PRC designated by the OEMs to export products from the PRC to overseas countries) and trading companies which we engage for footwear manufacturing  |
| “Frost & Sullivan”                               | Frost & Sullivan (Beijing) Inc., Shanghai Branch Co., an industry research consultant and an Independent Third Party   |
| “Frost & Sullivan Report”                        | the industry report prepared by Frost & Sullivan and commissioned by our Company   |
| “GDP”  | gross domestic product (all references to GDP growth are to real as opposed to nominal rates of growth)  |
| “GEM”  | the Growth Enterprise Market of the Stock Exchange   |
| “GEM Listing Rules”                              | the Rules Governing the Listing of Securities on GEM, as amended, supplemented or otherwise modified from time to time   |
| “Government”                                     | the Government of Hong Kong  |
| “Group”, “our Group”, “we”, “our” or “us”        | our Company and its subsidiaries (or our Company and any one or more of its subsidiaries, as the context may require) or, where the context so requires in respect of period before our Company becomes the holding company of its present subsidiaries, the present subsidiaries of our Company and the businesses carried on by such subsidiaries or (as the case may be) their predecessors |
| “HK\$”, “HKD” or “Hong Kong dollars” or “cents”  | Hong Kong dollars and cents, respectively, the lawful currency of Hong Kong  |
| “HKSCC”  | Hong Kong Securities Clearing Company Limited  |

## DEFINITIONS

|   |  |
|---|--|
| “HKSCC Nominees”                            | HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC   |
| “Hong Kong”, “HKSAR” or “HK”                | the Hong Kong Special Administrative Region of the PRC   |
| “Hong Kong Legal Advisers”                  | TC & Co., our Company’s legal advisers as to Hong Kong law   |
| “Hong Kong Share Registrar”                 | [REDACTED]   |
| “Independent Third Party(ies)”              | any individual(s) or company(ies) who or which is/are independent of and not connected with our connected persons and not a connected person of our Company, and “Independent Third Party” means any of them |
| “International Sanctions Laws”              | sanctions-related laws and regulations issued by the U.S. government, the EU, the United Nations or the Australian government  |
| “Latest Practicable Date”                   | 12 May 2016, being the latest practicable date for ascertaining certain information in this [REDACTED] before the printing of this [REDACTED]  |
| “[REDACTED]”                                | [REDACTED]   |
| “[REDACTED]”                                | [REDACTED]   |
| “Memorandum” or “Memorandum of Association” | the amended and restated memorandum of association of our Company conditionally adopted on 11 May 2016 and to become effective on the [REDACTED] Date, as amended from time to time                          |
| “MOFCOM”                                    | the Ministry of Commerce of the PRC (中華人民共和國商務部)   |
| “Mr. Fang”                                  | Mr. Fang Haiqiang (方海強), a former director, legal representative and general manager of Tin Da, and a connected person of our Company  |
| “Mr. KC Ho”                                 | Mr. Ho Kwok Choi (何國材), one of the founders of our Group, one of our Controlling Shareholders, father of Mr. KW Ho and Mr. KP Ho and a connected person of our Company                                       |

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## DEFINITIONS

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|-----------------|---|
| “Mr. KP Ho”     | Mr. Ho Kin Pong (何建邦), an executive Director, younger brother of Mr. KW Ho, son of Mr. KC Ho and a connected person of our Company  |
| “Mr. KW Ho”     | Mr. Ho Kin Wai (何建偉), an executive Director, one of our Controlling Shareholders, elder brother of Mr. KP Ho, son of Mr. KC Ho and a connected person of our Company  |
| “Mr. Kwok”      | Mr. Kwok To Sang (郭圖生), uncle of Mr. KW Ho and Mr. KP Ho, brother-in-law of Mr. KC Ho and a connected person of our Company   |
| “Mr. Shek”      | Mr. Shek Linus Man-keit (石文傑), our head of design and business development department, whose profile and background are set out in the section headed “Directors, senior management and staff – Senior management” in this [REDACTED] |
| “Mr. Tan”       | Mr. Jacky Tan, our general manager, whose profile and background are set out in the section headed “Directors, senior management and staff – Senior management” in this [REDACTED]  |
| “NDRC”          | the National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會)   |
| “NPC”           | the National People’s Congress of the PRC (中華人民共和國全國人民代表大會)   |
| “NZ\$” or “NZD” | New Zealand dollars, the lawful currency of New Zealand   |
| “OFAC”          | the United States Department of Treasury’s Office of Foreign Assets Control   |
| “Peishida”      | 東莞沛士達鞋業有限公司, a company incorporated in the PRC with limited liability on 11 December 2013, which was owned as to 60% by Mr. Fang and as to 40% by an Independent Third Party, and was dissolved in February 2015                      |

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## DEFINITIONS

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|                      |   |
|----------------------|---|
| “[REDACTED]”         | [REDACTED]  |
| “[REDACTED]”         | [REDACTED]  |
| “[REDACTED]”         | [REDACTED]  |
| “PRC Company Law”    | the Company Law of the PRC (中華人民共和國公司法), enacted by the Standing Committee of the Eighth NPC on 29 December 1993 and effective on 1 July 1994, as amended, supplemented or otherwise modified from time to time |
| “PRC EIT Law”        | the PRC Enterprise Income Tax Law (中華人民共和國企業所得稅法), promulgated on 16 March 2007 by the NPC and became effective on 1 January 2008, as amended supplemented or otherwise modified from time to time              |
| “PRC Government”     | the central government of the PRC, including all governmental subdivisions (including provincial, municipal and other regional or local government entities) and instrumentalities thereof                      |
| “PRC Legal Advisers” | JunZeJun Law Offices, the legal advisers of our Company as to the PRC law   |
| “Premises 1”         | a premises located at Workshops 1 and 2 on 17th Floor, Sterling Centre, No. 11 Cheung Yue Street, Kowloon, Hong Kong  |
| “Premises 2”         | a premises located at Factory Unit A2 on 4/F., Great Wall Factory Building, No. 11 Cheung Shun Street, Kowloon, Hong Kong   |
| “Premises 3”         | a premises located at No. 61 Xinsanlu Road, Xintangcun Garden, Houjiezhèn, Dongguan, PRC  |



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## DEFINITIONS

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|----------------------------|---|
| “Province” or “province”   | each being a province or, where the context requires, a provincial level autonomous region or a provincial-level city under the direct supervision of the PRC Government  |
| “Reorganisation”           | the restructuring of our Group for the purpose of facilitating the [REDACTED] in the manner as set out in the section headed “History, Reorganisation and corporate structure – Reorganisation” in this [REDACTED]  |
| “Reorganisation Agreement” | the reorganisation agreement dated 20 August 2015 made between our Company as purchaser, Mr. KW Ho as vendor and Asia Matrix in relation to our Company’s acquisition of the entire issued share capital of United Acme from Mr. KW Ho, and in consideration of which our Company (i) credited as fully paid at par the one nil paid subscriber Share held by Mr. KW Ho; and (ii) issued and allotted 999 fully paid up Shares to Asia Matrix, as directed by Mr. KW Ho |
| “RMB” or “Renminbi”        | Renminbi, the lawful currency of the PRC  |
| “Russia”                   | the Russia Federation   |
| “SAFE”                     | the State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)  |
| “Sanctioned Countries”     | countries which are the targets of economic sanctions as administered by the U.S., and/or the EU, and/or the United Nations and/or Australia  |
| “Sanctioned Person(s)”     | certain person(s) and entity(ies) listed on the United States Department of Treasury’s Office of Foreign Assets Control Specially Designated Nationals and Blocked Persons List and/or other restricted parties lists maintained by the EU, the United Nations or Australia   |
| “SAT”                      | the State Administrations of Taxation of the PRC (中華人民共和國國家稅務總局)  |
| “SFC”                      | the Securities and Futures Commission of Hong Kong  |
| “SFO”                      | the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time   |

## DEFINITIONS

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| “Share Option Scheme”  | the share option scheme conditionally adopted by us on 11 May 2016, the principal terms of which are summarised in the section headed “D. Share Option Scheme” in Appendix IV to this [REDACTED]    |
| “Share(s)”   | ordinary share(s) with a nominal value of HK\$0.01 each in the share capital of our Company   |
| “Shareholder(s)”   | holder(s) of the Share(s)   |
| “Skynice”  | Skynice Trading Limited (天麗貿易有限公司), a company incorporated in Hong Kong with limited liability on 18 August 2006, which is wholly owned by Mr. KC Ho and is a connected person of our Company       |
| “[REDACTED]” or<br>“[REDACTED]”  | [REDACTED]  |
| “Sole Sponsor”   | Kingston Corporate Finance Limited, a licensed corporation permitted to carry out type 6 (advising on corporate finance) regulated activity under the SFO, being the sole sponsor to the [REDACTED] |
| “sq.ft.”   | square feet   |
| “sq.m.” or “m <sup>2</sup> ”   | square metre  |
| “State Administration for Industry and Commerce of the PRC” or<br>“SAIC” | the State Administration for Industry and Commerce of the PRC (中華人民共和國國家工商行政管理總局)   |
| “State Council”  | the State Council of the PRC (中華人民共和國國務院)   |
| “Stock Exchange” or “Hong Kong Stock Exchange”                           | The Stock Exchange of Hong Kong Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited  |
| “subsidiary” or “subsidiary(ies)”  | has the meaning ascribed to it in section 15 of the Companies Ordinance   |
| “substantial shareholders”   | has the meaning ascribed to it under the GEM Listing Rules  |
| “Takeovers Code”   | the Codes on Takeovers and Mergers and Share Buy-backs issued by the SFC, as amended, supplemented or otherwise modified from time to time  |

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## DEFINITIONS

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|-----------------------------------|---|
| “Tin Da”                          | 東莞天達鞋業貿易有限公司, a wholly foreign-owned enterprise established in the PRC on 3 December 2010, which is wholly owned by Ever Sky and an indirect wholly-owned subsidiary of our Company         |
| “Track Record Period”             | the period comprising the three years ended 31 December 2015  |
| “Underwriters”                    | [REDACTED] [REDACTED]   |
| “Underwriting Agreement”          | the underwriting agreement dated 19 May 2016 entered into between our Company, our Controlling Shareholders, our executive Directors, our Sole Sponsor, our [REDACTED] and our Underwriters |
| “United Kingdom” or “UK”          | The United Kingdom of Great Britain and Northern Ireland  |
| “United Acme”                     | United Acme Limited, a company incorporated in the BVI with limited liability on 9 January 2015 and a direct wholly-owned subsidiary of our Company   |
| “United States” or “US” or “U.S.” | the United States of America  |
| “US\$” or “USD” or “US dollars”   | United States dollars, the lawful currency of the U.S.  |
| “%”                               | per cent.   |

*Certain amounts and percentage figures included in this [REDACTED] have been subject to rounding adjustment. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.*

*All times refer to Hong Kong local times.*

*For ease of reference, the names of the PRC established companies or entities, laws or regulations have been included in this [REDACTED] in both the Chinese and English languages and in the event of any inconsistency between the Chinese names of the PRC entities mentioned in this [REDACTED] and their English translations, the Chinese names shall prevail.*

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## GLOSSARY OF TECHNICAL TERMS

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*This glossary contains explanations of certain terms used in this [REDACTED] in connection with us and our business. These terminologies and their given meanings may not correspond to those standard meanings and usage adopted in the industry.*

|                    |   |
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| “3D”               | three-dimensional   |
| “casual footwear”  | footwear which is usually worn together with lifestyle and contemporary clothing and is suitable for shopping, travelling and general working environment. Casual footwear has a wide range of colour, style, material and design to suit different lifestyle and occasions. Leathers, synthetic materials, canvas, cotton materials and rubber materials are commonly used to manufacture casual footwear  |
| “CIF”              | acronym for the trade term “Cost, Insurance and Freight”, which means that the seller delivers the goods on board the vessel or procures the goods already so delivered. The risk of loss of or damage to the goods passes when the goods are on board the vessel. The seller must contract for and pay the costs and freight necessary to bring the goods to the named port of destination. The seller also contracts for insurance cover against the buyer’s risk of loss of or damage to the goods during the carriage |
| “export companies” | companies in the PRC which possess the necessary qualifications to export products from the PRC to overseas countries   |
| “FOB”              | acronym for the trade term “Free On Board”, which means that the seller delivers the goods on board the vessel nominated by the buyer at the named port of shipment or procures the goods already so delivered. The risk of loss of or damage to the goods passes when the goods are on board the vessel, and the buyer bears all costs from that moment onwards  |
| “formal footwear”  | footwear which is usually worn together with office or business attires and is suitable for business related or formal events. Formal footwear is usually in black, tan, brown, burgundy or dark grey. Natural leather is the major raw material used in the manufacturing of formal footwear; however, other materials like PU are also used to manufacture formal footwear  |

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## GLOSSARY OF TECHNICAL TERMS

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|-----------------|--|
| “ISO”           | acronym for International Organisation for Standardisation, a non-governmental organisation that develops and publishes international standards  |
| “ISO 9001:2008” | one of the management standards and guidelines of ISO which states that requirement for quality management systems and covers the following management principles: customer focus, leadership, involvement of people, process approach, system approach management, continual improvement, factual approach to decision making and mutually beneficial supplier relationship   |
| “ODM”           | acronym for original design manufacturer, which designs and manufactures products and the products are sold under the customer’s brand name  |
| “OEM”           | acronym for original equipment manufacturer, which manufactures products in whole or in part in accordance with a customer’s specifications and the products are marketed under the customer’s own brand name. Since our OEMs are responsible for delivering finished footwear to our overseas customers, our OEMs which do not have the necessary export qualifications will designate export companies to export finished footwear from the PRC to overseas countries and handle export procedures. Under such circumstances, we will place our manufacturing orders with such export companies. Some of the export companies may be engaged by more than one of our OEMs. Although our manufacturing orders are placed with such export companies, we usually liaise and undertake production management with our OEMs directly and our OEMs are ultimately responsible for the manufacture of our footwear. For the purpose of this [REDACTED], unless the content specified otherwise, “OEMs” comprise our OEMs and their designated export companies, if any |
| “PU”            | polyurethane   |

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## FORWARD-LOOKING STATEMENTS

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

- our business prospect;
- future development, trends and conditions in the industry and markets in which we operate;
- our strategies, plans, objectives and goals;
- general economic trends and conditions;
- changes to regulatory and operating conditions in the industry and markets in which we operate;
- our ability to control costs;
- our dividend policy;
- the amount and nature of, and potential for, future development of our business;
- capital market development;
- the actions and development of our competitors; and
- certain statements in the section headed “Financial information” in this [REDACTED] with respect to trend in prices, volumes, operations, margins, overall market trends, risk management and exchange rates.

Subject to the requirements of the GEM Listing Rules, we do not intend to publicly update or otherwise revise the forward-looking statements in this [REDACTED], whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this [REDACTED] might not occur in the way we expect, or at all. Accordingly, you should not place undue reliance on any forward-looking statements. All forward-looking statements in this [REDACTED] are qualified by reference to this cautionary statement.

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## RISK FACTORS

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*Investors should carefully consider all of the information set forth in the [REDACTED], including the risks and uncertainties described below, before making an investment in the [REDACTED]. If any of the possible events described below occur, our business operations, financial condition or results of operation could be materially and adversely affected and the market price of the [REDACTED] could fall significantly, as a result of which, you may lose all or part of your investment.*

### A. RISKS RELATING TO OUR BUSINESS

- 1. We derived a significant portion of our revenue from our five largest customers during the Track Record Period, and if our relationship with them deteriorates or terminates, our business and results of operations would be adversely affected.**

Sales to our five largest customers for the three years ended 31 December 2015 amounted to approximately HK\$241.0 million, HK\$162.9 million and HK\$229.6 million, respectively, which accounted for approximately 79.4%, 66.8% and 75.9%, respectively, of our total revenue for the corresponding year. Sales to our largest customer for the three years ended 31 December 2015 amounted to approximately HK\$95.0 million, HK\$79.5 million and HK\$92.3 million, respectively, which accounted for approximately 31.3%, 32.6% and 30.5%, respectively, of our total revenue for the corresponding year.

We cannot assure you that our five largest customers will continue to do business with us at the same or increased levels or at all. If any of these major customers were to substantially reduce the volume and/or the value of the orders they place with us or to cease to conduct business with us as we have not entered into any long-term purchase agreement with our customers, there is no assurance that (i) our Group would be able to obtain orders from new customers or other existing customers to make up for such loss of sales; or (ii) even if we would be able to obtain other orders, they would be on commercially comparable terms. In light of the above, our Group's operations and financial results may be adversely affected.

- 2. We do not have long-term purchase commitments from our customers, which exposes us to potential volatility in our turnover.**

Our business with our customers during the Track Record Period has been, and we expect it will continue to be, conducted on the basis of actual purchase orders received from time to time. Such purchase orders set out the basic terms and conditions for the transactions without any long-term purchase commitments.

Our customers' purchase orders may vary from period to period, and it is difficult to accurately forecast future order volume. There is no assurance that our customers will not cancel or defer purchase orders, will continue to place purchase orders with us in the future, whether at the same volume, or at the same margin, as compared to prior periods, or at all. We may not be able to locate alternative customers to place new purchase orders. There is also no assurance that the volume or margin of our customers' purchase orders will be consistent with our expectations. As a result, our results of operations may vary from period to period and may fluctuate significantly in the future.

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## RISK FACTORS

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### **3. Our business is largely dependent on global and regional economic conditions.**

During the Track Record Period, almost all of our footwear was exported overseas. Sales to overseas customers accounted for approximately 98.8%, 97.7% and 98.5% of our total revenue for the three years ended 31 December 2015, respectively. Further, a significant portion of our total revenue was derived from export sales to Australia, United Kingdom, Chile, New Zealand, United Arab Emirates, United States and Russia which in aggregate accounted for approximately 78.5%, 76.5% and 79.6% of our total revenue for the three years ended 31 December 2015, respectively. Please refer to the section headed “Business – Products” in this [REDACTED] for further information on our revenue breakdown by shipment destination of the footwear we sold to our customers during the Track Record Period.

Any change in economic conditions of our export countries, such as interest rates, currency exchange rates, recession, inflation, deflation, political uncertainty, taxation, stock market performance, unemployment level and general consumer confidence, may affect the volume of purchase of our customers. Any change in the sales orders from our customers in our export countries resulting from any change in global or regional economic conditions may affect our business operations and financial performance.

### **4. Fluctuations on foreign exchange rates may materially and adversely affect the financial condition and results of operations of our Group.**

Our revenue is denominated in USD due to the export-oriented nature of our business while our payment to our footwear suppliers is substantially made in USD. On the other hand, our footwear suppliers pay for their production costs mainly in RMB. Hence, any appreciation of RMB against USD would reduce the payment received by our footwear suppliers in terms of RMB. In such event, our footwear suppliers may request us to increase the manufacturing prices in order to pass the increased costs to us. Our results will be negatively affected to the extent that we are unable to transfer all the increased costs to our customers when our purchase costs rise.

Further, in the event of appreciation of USD against the currencies of our export countries, the price of our footwear in terms of the respective currency would increase. If our customers do not have appropriate hedging arrangements in place or are unable to pass the price increase onto the end customers, they may request us to reduce the selling prices to maintain their profit margin. Under such circumstances, we may not have adequate bargaining power to maintain our profit margin and if we are unable to reduce the costs of purchase from our suppliers in order to reduce the selling price to our customers in USD, our customers may reduce their demand for our footwear if they do not accept our price quotations. In such event, our results of operations will be adversely affected.

### **5. We are exposed to credit risk from our customers.**

Our Group’s exposure to credit risk is influenced mainly by the individual characteristics of each customer. As at 31 December 2013, 31 December 2014 and 31 December 2015, approximately 56.9%, 66.7% and 79.3%, respectively, of our total trade receivables were due from our five largest customers and approximately 5.0%, 4.7% and



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## RISK FACTORS

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45.3%, respectively, of our total trade receivables were due from our largest customer. As at 31 December 2013, 31 December 2014 and 31 December 2015, approximately 77.5%, 86.6% and 91.2%, respectively, of our total trade receivables were due from the five largest debtors (all being customers) and approximately 27.1%, 25.8% and 45.3%, respectively, of our total trade receivables were due from the largest debtor (being a customer).

We cannot assure you that our customers will pay us on time and that they will be able to fulfill their payment obligations. Should we experience any unexpected delay or difficulty in collections from our customers, our operating results and financial condition may be adversely affected. Further, we may be exposed to further credit risks from new customers and from providing credit to our existing customers. As a result, we cannot assure you that the risk of default by these customers will not occur in the future.

- 6. Our purchases from our five largest suppliers accounted for over 50% of the total purchases of our Group during the Track Record Period. Should our relationship with them deteriorate or terminate, our business and results of operations would be adversely affected.**

We outsource footwear manufacturing to our footwear suppliers instead of building our own footwear factories since our inception. Our footwear suppliers play an important role in our footwear supply chain. Our purchases from our five largest suppliers (all being our footwear suppliers) for the three years ended 31 December 2015 amounted to approximately HK\$201.0 million, HK\$156.8 million and HK\$194.0 million, respectively, which accounted for approximately 79.4%, 76.4% and 76.8%, respectively, of our total purchases for the corresponding year. Our purchases from our largest supplier for the three years ended 31 December 2015 amounted to approximately HK\$124.1 million, HK\$120.7 million and HK\$129.3 million, respectively, which accounted for approximately 49.0%, 58.8% and 51.2%, respectively, of our total purchases for the corresponding year.

Any significant fluctuations in raw material costs and labour costs of our footwear suppliers could affect the purchase cost of footwear paid by us and thus our profitability, in case that we are unable to pass on any increase in the costs to our customers. In addition, as we rely on our footwear suppliers for production of our products, any delay in completing the production and/or producing products with unsatisfactory quality could adversely affect our operations and financial results.

- 7. We do not have long-term purchase commitments with our footwear suppliers and are exposed to potential volatility in our supply and fluctuation in cost of purchase from our footwear suppliers, which may in turn materially adversely affect our business, financial condition and results of operations.**

We do not have long-term purchase commitments with our footwear suppliers. Our business with our footwear suppliers has been conducted on the basis of actual purchase orders given to them from time to time. The abilities of our footwear suppliers to manufacture footwear for us may be subject to a number of factors, including supply of labour, equipment performance, disruption to their operations due to natural or other causes such as natural disaster and fire, and volume of orders placed by our competitors. Moreover, the cost of purchase from our footwear suppliers is subject to fluctuation and is affected by several factors, such as fluctuations in market price for raw materials, the availability of

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## RISK FACTORS

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substitute materials and our purchase volume. If any of our key footwear suppliers discontinues to manufacture footwear for us, or at the same or similar volume, or at the same or similar cost or terms, and we fail to find a suitable replacement on a timely basis, our business, financial condition and results of operations may be materially and adversely affected.

**8. We experienced net operating cash outflow for the year ended 31 December 2015.**

We recorded net cash used in operating activities of approximately HK\$6.2 million for the year ended 31 December 2015, which was principally attributable to (i) operating cash flows before movements in working capital of approximately HK\$11.4 million; (ii) increase in trade and bills receivables of approximately HK\$29.4 million; (iii) increase in trade and other payables of approximately HK\$16.1 million; and (iv) payment of income tax of approximately HK\$3.0 million. Please refer to the section headed “Financial information – Liquidity and financial resources – Net cash from (used in) operating activities” for further details. We cannot assure you that we will not experience net operating cash outflow in the future. In the event that we are unable to generate sufficient cash flow for our operations or otherwise unable to obtain sufficient funds to finance our business, our liquidity and financial condition may be materially and adversely affected. We can give no assurance that we will have sufficient cash from other sources to fund our operations. If we resort to other financing activities to generate additional cash, we will incur additional financing costs, and we cannot guarantee that we will be able to obtain the financing on terms acceptable to us, or at all.

**9. Our Group operates in a very competitive market and the intense competition our Group faces may lead to a decline in our Company’s market share and lower profit margins.**

The market for footwear design and development, production management and logistics management service is highly fragmented and competitive. Participants in this market compete on, among other things, product design, product variety, product quality, price and the ability to meet delivery commitments to customers. Furthermore, customers are continuously demanding higher quality, shorter lead times and lower prices from their suppliers, while ordering smaller volume to offer a greater diversity of designs. As a result, our Group’s future success will depend on our ability to maintain an efficient, timely and cost-effective service while delivering high-quality products. If we fail to do so, we may lose market share to better managed and faster-growing competitors or our Group may be forced to, among other actions, reduce prices and increase expenditures on product design and development, which may in turn materially adversely affect our Group’s business, financial condition and results of operations.

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## RISK FACTORS

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**10. We had a thin profit margin during the Track Record Period and we may not be able to maintain our historical profitability in future.**

Our total revenue amounted to approximately HK\$303.4 million, HK\$243.7 million and HK\$302.7 million for the three years ended 31 December 2015, respectively. During the Track Record Period, we recorded gross profit of approximately HK\$35.1 million, HK\$30.5 million and HK\$41.2 million, respectively, and gross profit margin of approximately 11.6%, 12.5% and 13.6%, respectively. Our net profit margin was approximately 3.3%, 3.4% and 2.1% for the three years ended 31 December 2015, respectively.

As we are operating in an industry with intense competition, our profitability is susceptible to a number of factors, including but not limited to changes in selling price and sales volume of our footwear, fluctuations in foreign exchange rates, losses of customers, changes in interest rate, increasing bad debts and changes in purchase cost. Any adverse movement in these factors will adversely affect our profitability in the future. Besides, our Directors expect our operating expenses to increase due to (i) the increase in rental expenses for leasing of a new office incorporating a showroom in Hong Kong and the increase in staff costs resulting from the recruitment of additional staff (please refer to the section headed “Business – Our business objectives and strategies” in this [REDACTED] for further details); and (ii) increase in freight and insurance charges in respect of sales under CIF terms. If our Group fails to control our operating expenses effectively, our profitability will be adversely affected. Our future revenue and profitability also depend on the successful implementation of our future plans as stated in the section headed “Future plans and use of proceeds – Implementation plan” in this [REDACTED]. Our gross profit margin as well as our net profit margin during the Track Record Period may not be indicative of our future performance and we may encounter difficulties in sustaining our current profitability. We cannot assure you that we will be able to maintain our historical revenue and profit margins in the future.

**11. Our sales volume is sensitive to seasonality.**

We have historically experienced seasonal fluctuations in our sales in which a lower level of sales normally occurred in the first quarter of a year. Please refer to the section headed “Business – Seasonality” in this [REDACTED] for further details.

As a result of these fluctuations, comparisons of sales and results of operations between different periods within a single financial year, or between different periods in different financial years cannot be relied on as indicators of our performance. Furthermore, any change in customers’ spending patterns and demands, market trends or timing of festival seasons may intensify such fluctuations and adversely or seasonally affect our business, financial condition and results of operations.

**12. Our Group’s insurance coverage may be inadequate to protect our Group against potential losses and product liability.**

Details of the insurances we maintained are set out in the section headed “Business – Insurance” in this [REDACTED]. No assurance can be given that our insurance coverage will be able to cover all types of, or be sufficient to cover the full extent of any loss, damage or injury to person or property for which we may be held liable.

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## RISK FACTORS

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Our ability to meet the demand of and our contractual obligations to our customers as well as our ability to grow our business are all heavily dependent on the efficient, proper and uninterrupted operations of our business. Nevertheless, our Group does not have any business liability or business interruption insurance coverage for our Group's operations in Hong Kong or the PRC. If any claims for injury were brought against our Group, or if our Group experiences any business disruption, litigation or natural disaster, our Group may incur substantial costs and experience diversion of resources.

In addition, there are certain types of losses, such as those resulting from war, acts of terrorism, earthquakes, typhoons, flooding and other natural disasters, for which we cannot obtain insurance at a reasonable cost or at all. Any events and any losses or liabilities that are not covered by our current insurance policies may have a material adverse impact on our business, financial conditions and results of business prospects.

We do not usually maintain product liability insurance for our footwear unless our customer specifically requests us to do so. During the Track Record Period, we only maintained one product liability insurance for a maximum amount of USD2 million as requested by a customer for footwear we supplied to it. Any product liability claim against us and any legal proceedings, arbitration or administrative sanctions or penalties arising therefrom, irrespective of the outcome or the merits of such claims or any product liability claim exceeding our insurance limit, would adversely affect our business, financial condition, results of operations as well as our corporate image and reputation. Even if we are able to defend any such claim successfully, we cannot assure you that our customers will not lose confidence in our footwear as a result of such claim, which may in turn adversely affect our future business. In addition, any product liability claim could result in significant costs and expenses which may or may not be recoverable. There is no assurance that no product liability claims will be made against us in the future.

**13. If we are unable to maintain key members of our management, our growth and future success may be impaired and our financial condition could suffer.**

We believe that our continued success, growth and ability to expand our operations depend on a significant degree upon the continued efforts, contribution and abilities of key members of our management team, in particular Mr. KW Ho, Mr. Tan and Mr. Shek, who have earned approximately 12, 25 and 15 years of experience in footwear and/or apparel industry, respectively. Losing services of these key personnel could affect our business operation. Our Directors believe that these persons possess the relevant knowledge and requisite expertise which are essential to our business while our Group's future development and our business depend on our ability to attract and retain these members of our senior management team. Any failure to retain and recruit the necessary management personnel at any time may affect our business operations, financial performance and future prospects.

**14. Our Group and/or our customers may not be able to anticipate and respond in a timely manner to rapid changes in consumers' tastes and preferences.**

As our footwear is closely linked with fashion trends, our Group's sales are dependent on our ability to cater for different consumer fashion tastes and preferences which are changing dynamically. Failure of our Group to accurately anticipate and respond to

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## RISK FACTORS

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market and fashion trends in a timely manner could result in our Group’s lower sales volume, lower selling prices and thus lower profits. Likewise, our customers’ failure to anticipate the market and fashion trends could result in lower orders to be placed with our Group. In such events, our business, financial condition and results of operations would be adversely affected.

**15. Unauthorised use or infringement of intellectual property rights may harm our business.**

Our customers comprise mainly wholesalers and retailers of branded footwear who own or are licensed or authorised to use the relevant brands. Despite having taken stringent measures to ensure that our customers are duly authorised and have obtained the necessary licences for using the brands which we are engaged to supply as described in the section headed “Business – Customers” in this [REDACTED], we cannot assure you that such measures can adequately and effectively safeguard us from any accusation of unauthorised use or infringement of others’ intellectual property rights. If we are alleged to have infringed the intellectual property rights of brand owners, our reputation, business operations, financial condition and results of operations will be adversely affected. We may also be subject to litigation involving claims of infringement or violation of intellectual property rights of brand owners. The defence of intellectual property suits and related legal proceedings can be both costly and time consuming and may significantly divert the efforts and resources of our Group.

**16. Our Group may be requested to pay the unpaid social insurance fund contributions and may be subject to penalties which in turn may adversely affect our financial condition and reputation.**

As advised by our PRC Legal Advisers, Tin Da did not pay the social insurance fund contributions in full as required under the relevant PRC laws and regulations since the date of incorporation of Tin Da (being 3 December 2010) up to July 2015. The amount of the unpaid social insurance fund contributions accumulated during such period is approximately RMB1.3 million.

We have been in compliance with the requirements under relevant PRC laws and regulations in relation to the social insurance fund contributions since August 2015. Nevertheless, as advised by our PRC Legal Advisers, pursuant to the relevant provisions of the Social Insurance Law of the PRC (《中華人民共和國社會保險法》), Tin Da may be requested to pay the unpaid social insurance fund contributions within a prescribed time limit and a daily fine of 0.05% of the unpaid social insurance fund contributions from the date on which the payment is overdue. If the payment is not made within the prescribed time limit, a default fine equivalent to one to three times of the unpaid social insurance fund contributions will be imposed on Tin Da. For the three years ended 31 December 2015, we have made provision of approximately HK\$0.5 million, HK\$0.8 million and HK\$0.5 million, respectively, for the possible payment of the unpaid social insurance fund contributions and relevant fines. Please refer to the section headed “Business – Legal compliance and proceedings” in this [REDACTED] for further details.

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## RISK FACTORS

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

**17. We had certain non-compliance incidents in relation to the usage of our previous premises in Hong Kong.**

By using Premises 1 as office from September 2012 to March 2014 and using Premises 2 as office from March 2014 to May 2015, our Group might have, prima facie, breached the land use restrictions set out in the respective Conditions of Sale, occupation permit and the deed of mutual covenant of these two premises although these two premises were also used partly for certain design and drawing works and in respect of Premises 2, for storage of footwear samples of D&S at the material time, which, in the opinion of the Directors, formed a part of successive stage in the industrial process related to the business of our Group. Our executive Directors had at the material time noted that pursuant to Chapter 5 of the Hong Kong Planning Standards and Guidelines issued by the Planning Department, there was no restriction on the size of an office to be established within an industrial building as long as it was directly related to an industrial operation of the user thereof.

However, if the aforesaid views of our executive Directors are not acceptable to the Lands Department, which on the contrary concludes that our Group's carrying out certain design and drawing works in these two premises and for storage of footwear samples of D&S in Premises 2 did not form a part of successive stage in the industrial process related to the business of our Group, our Group's usage of Premises 1 and Premises 2 as office would then constitute a breach of the land use restrictions of these two premises. Our Hong Kong Legal Advisers therefore advised our Group to take foolproof measures in dealing with the compliance issue of the government leases and thus, our Group moved out from Premises 2 and relocated to our current office in May 2015.

On the other hand, if these two premises were found to have illegal building works for conversion of which to office, our Group would be held liable under section 40(2) and section 40(6) of the Buildings Ordinance whereby our Group is liable to a maximum fine of HK\$100,000 and the relevant directors would be liable to a maximum fine of HK\$100,000 and maximum imprisonment of two years. In this connection, our Directors confirmed that no illegal building works for the erection of an office in Premises 1 or Premises 2 had been carried out at the material time.

Based on the above, our Hong Kong Legal Advisers take the view that the risks that our Group would be subject to (i) any liabilities under section 40(2) and section 40(6) of the Buildings Ordinance or (ii) any prosecution or claim for our previous usage of these two premises as office is extremely remote. Nonetheless, if we are ordered to pay any penalty due to any non-compliance incidents, our business operation and financial position may be affected.



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## RISK FACTORS

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**18. There may be possible impact of certain non-recurring expenses on our financial performance.**

Notwithstanding our financial performance for the three years ended 31 December 2015 as disclosed in this [REDACTED], our financial results for the financial year ending 31 December 2016 will be affected by certain non-recurring expenses, including the expenses in relation to the [REDACTED]. As at the Latest Practicable Date, our estimated expenses in relation to the [REDACTED] amounted to approximately HK\$[REDACTED], of which approximately HK\$[REDACTED] and HK[REDACTED]\$ were recognised during the two years ended 31 December 2015, respectively. For the remaining expenses, we expect to charge approximately HK\$[REDACTED] to our profit or loss for the year ending 31 December 2016, and the balance of approximately HK\$[REDACTED] to be capitalised for the year ending 31 December 2016. Accordingly, our Directors wish to inform our Shareholders and potential investors that our financial results for the year ending 31 December 2016 will be affected by the expenses in relation to the [REDACTED]. We also wish to emphasise that our current estimated expenses in relation to the [REDACTED] set forth above are for reference only and the final amount to be recognised as our profit or loss for the year ending 31 December 2016 may be different and our estimation is also subject to changes in variables and assumptions at the relevant time.

**19. Prior dividend distributions are not an indication of our future dividend policy and we may not be able to pay any dividend on our Shares.**

Ever Smart declared dividend during the year ended 31 December 2014 in the sum of HK\$26 million to Ever Sound, which in turn declared dividend in the same amount to Mr. KW Ho. Such dividend was fully settled in December 2014. However, historical dividend distributions are not indicative of our future distribution policy and we cannot assure you that dividends of similar amounts or at similar rates will be declared in the future. Any amount of dividends to be declared and paid by our Company will be at the discretion of our Directors taking into consideration our future operations and earnings, capital requirements and surplus, general financial condition and such other factors that our Directors consider appropriate. Any declaration and payment as well as the amount of dividends will also be subject to our constitutional documents and the Companies Law, including (where required) the approval of shareholders. Therefore, we cannot guarantee when, if and in what form dividends will be paid on our Shares following the [REDACTED]. We may not have sufficient or any profits to enable us to make dividend distributions to our Shareholders in the future, even if our financial statements indicate that our operations have been profitable.

**20. We could be adversely affected as a result of our operations and sales in countries that are subject to evolving economic sanctions by the U.S., the EU, the United Nations, Australia and other relevant sanctions authorities.**

Certain countries and organisations, including the U.S., the EU, Australia and the United Nations, have comprehensive or broad economic sanctions imposed upon the Sanctioned Countries. During the Track Record Period, we sold our products to customers in Russia, Venezuela and Iraq, which have become Sanctioned Countries since March 2014,

## RISK FACTORS

March 2015 and August 1990, respectively. The table below sets forth revenues from sales to customers in each of these three countries and the corresponding percentage of our total revenues during the Track Record Period:

|                          | Year ended<br>31 December 2013 |                                   | Year ended<br>31 December 2014 |                                   | Year ended<br>31 December 2015 |                                   |
|--------------------------|--------------------------------|-----------------------------------|--------------------------------|-----------------------------------|--------------------------------|-----------------------------------|
|                          | <i>HK\$'000</i>                | <i>% of our<br/>total revenue</i> | <i>HK\$'000</i>                | <i>% of our<br/>total revenue</i> | <i>HK\$'000</i>                | <i>% of our<br/>total revenue</i> |
| Russia <sup>(1)</sup>    | 94,962                         | 31.3                              | 1,220                          | 0.5                               | nil                            | nil                               |
| Venezuela <sup>(2)</sup> | 3,670                          | 1.2                               | nil                            | nil                               | nil                            | nil                               |
| Iraq <sup>(3)</sup>      | nil                            | nil                               | nil                            | nil                               | 53                             | 0.0                               |
| <b>TOTAL</b>             | <b>98,632</b>                  | <b>32.5</b>                       | <b>1,220</b>                   | <b>0.5</b>                        | <b>53</b>                      | <b>0.0</b>                        |

*Notes:*

1. Russia has been sanctioned by the U.S. government, the EU and the Australian government since March 2014.
2. Venezuela has been sanctioned by the U.S. government since March 2015.
3. Iraq has been sanctioned by the U.S. government, the United Nations, the EU and the Australian government since August 1990.

Please refer to the section headed “Business – Business activities in Sanctioned Countries” in this [REDACTED] for further details.

We have undertaken to the Stock Exchange that we will not use the net proceeds from the [REDACTED] as well as any other funding raised through the Stock Exchange to finance or facilitate, directly or indirectly, activities or business with, or for the benefit of, the Sanctioned Countries or any other government, individual or entity sanctioned by the US, the EU, Australia or the United Nations, which include, without limitation, any government, individual or entity that is the subject of any OFAC-administered sanction. We have also undertaken to the Stock Exchange that we will not enter into any sanctionable transactions that would or may expose our Group, the Stock Exchange, HKSCC, HKSCC Nominees and our Shareholders or investors to any risk of being sanctioned. If we breach any of these undertakings to the Stock Exchange after the [REDACTED], it is possible that the Stock Exchange may delist our Shares. In order to ensure our compliance with these undertakings to the Stock Exchange, we will continuously monitor and evaluate our business and take measures to protect the interests of our Group and our Shareholders. For details regarding our internal control procedures, please refer to the section headed “Business – Business activities in Sanctioned Countries – Our undertakings and internal control procedures” in this [REDACTED].

We cannot predict the interpretation or implementation of government policies in the U.S. at the federal, state or local levels or any policy by the EU, the United Nations, Australia and/or other applicable jurisdictions with respect to any current or future activities by us or our affiliates in the Sanctioned Countries and with Sanctioned Persons. We will not



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## RISK FACTORS

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enter into or engage in any business that would cause our Group, the Stock Exchange, HKSCC, HKSCC Nominees, or our Shareholders or investors to violate or become a target of sanctions laws of the U.S., the EU, the United Nations or Australia. However, we can provide no assurances that our future business will be free of risk under sanctions implemented in these jurisdictions or that we will conform our business to the expectations and requirements of the U.S. authorities, or the authorities of any other government that may not have jurisdiction over our business but nevertheless assert the right to impose sanctions on an extraterritorial basis. Our business and reputation could be adversely affected if the government of the U.S., the EU, the United Nations or Australia or any other governmental entity were to determine that any of our activities constitutes a violation of the sanctions they impose, or provides a basis for a sanctions designation of our Company. In addition, as many sanction programs are constantly evolving, new requirements or restrictions could come into effect, which might increase scrutiny on our business or result in one or more of our business activities being deemed to have violated sanctions, or being sanctionable.

**21. Our Group may be held responsible for compliance with regulations in the United States in respect of the distribution of our Group’s footwear in the United States.**

During the Track Record Period, almost all of our footwear were exported overseas with shipment destinations including the United States. Our Group’s footwear are subject to regulations in the United States with respect to: (i) safety and labeling; (ii) payment of customs duties and proper declaration of country of origin; (iii) product liability; and (iv) intellectual property protection. Our Group has responsibility for compliance with these requirements in that it has responsibility for the design of the footwear, production management and logistics management for shipment of the footwear to the United States. Therefore, regulations in the United States could affect the distribution of our Group’s footwear in the United States and because these compliance obligations can extend to foreign companies that place goods into U.S. commerce, our Group could be held responsible for compliance with these regulations even though it does not take legal title to the products. Please refer to the section headed “Regulatory overview” in this [REDACTED] for further details.

### **B. RISKS RELATING TO OUR INDUSTRY**

**1. Occurrence of epidemics, acts of war, terrorist attacks and natural disasters could affect our Group’s business.**

An outbreak of avian flu, severe acute respiratory syndrome or any epidemic, an increase in the severity of the swine flu or the occurrence of any natural disaster, which may lead to serious disruption to the public in the affected areas, may have a material and adverse effect on our Group’s business, results of operations and financial performance. Acts of war and terrorist attacks may cause damage or disruption to our Group, our Group’s employees, our markets, our customers and our suppliers, any of which could materially impact our Group’s sales power, the procurement of footwear, overall results of operations and financial condition. Overall, any occurrence of epidemics, acts of war, terrorist attacks or natural disasters may cause our Group’s business to suffer in ways that our Group cannot predict.

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## **RISK FACTORS**

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**2. Our sales may fluctuate and may be restricted by anti-dumping measure or the imposition of tighter import and export controls by the governments of our export destinations abroad.**

During the Track Record Period, almost all of our footwear was exported overseas with shipment destinations including Australia, United Kingdom, Chile, New Zealand, United Arab Emirates, United States and Russia. As at the Latest Practicable Date, our products were not subject to any anti-dumping measure which excludes imported footwear or impose payment of anti-dumping duties in the major countries to which our footwear was exported. However, there is no assurance that our footwear will not be subject to any anti-dumping measures and anti-dumping duties in any of the countries where our Group's footwear is or will be exported in the future. Should any of such events occur, our sales volume, average selling price and gross profit margin may drop substantially and hence our financial condition, results of operations and prospects may be adversely affected.

Further, import and export of footwear are subject to certain import and export controls, including customs inspection and related procedures in countries of origin and destination as well as at transshipment ports. Such inspection procedures can result in the seizure of footwear, delay in transshipment or delivery of footwear and the levying of customs duties, fines or other penalties against exporters or importers. If inspection procedures or other controls are further tightened, it may adversely affect our business, financial condition and results of operations. Any imposition of trade restrictions such as tariffs or quotas, embargoes and customs restrictions against footwear could also have an adverse effect on our business, financial condition and results of operations.

### **C. RISK RELATING TO CONDUCTING BUSINESS IN THE PRC**

**1. Uncertainties with respect to the PRC legal system could have a material adverse effect on us.**

Some of our business and operations are conducted in the PRC and are governed by PRC laws, regulations and rules. The PRC legal system is a civil law system based on written statutes. Prior court decisions may be cited for reference, but have limited precedential value. The PRC has not developed a fully integrated legal system and recently enacted laws and regulations may not sufficiently cover all aspects of economic activities in the PRC. As many of these laws, regulations and rules are relatively new, and because of the limited volume of published decisions and their non-binding nature, the interpretation and enforcement of these laws, regulations and rules may involve uncertainties and may not be as consistent or predictable as in other more developed jurisdictions. Furthermore, the legal protections available to us under these laws, regulations and rules may be limited. Any litigation or regulatory enforcement action in the PRC may be protracted and could result in substantial costs and diversion of resources and management attention.

In addition, there can be no assurance that the PRC Government will not amend or revise existing laws, regulations or rules to require additional approvals, licences or permits, or to impose stricter requirements or conditions for the approvals, licences or permits required for our business and operations. Any loss of or failure to obtain or renew our approvals, licenses or permits could disrupt our operations and subject us to fines or

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## RISK FACTORS

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penalties imposed by the PRC Government. There can also be no assurance that the PRC Government will not amend or revise existing laws, regulations or rules, or promulgate new laws, regulations or rules, that have a material and adverse effect on our business, operations, growth or prospects. For refer to the section headed “Regulatory overview” in this [REDACTED] for further details.

### **D. RISKS RELATING TO THE [REDACTED]**

#### **1. There has been no prior public market for the Shares and an active trading market may not develop.**

Prior to the [REDACTED], there has not been a public market for the Shares. While our Company has applied to list and deal in the Shares on the GEM, there is no assurance that an active or liquid trading market will develop or be sustained if developed. The [REDACTED] has been determined through negotiations between our Company and our [REDACTED], and it may not necessarily be indicative of the market price of the Shares after the completion of the [REDACTED].

#### **2. The liquidity, trading volume and the market price of the Shares may be volatile.**

The market price and trading volume of the Shares may be highly volatile. Factors such as variations in our Group’s turnover, earnings and cash flow, changes in the analysis and recommendations of securities analysts, announcements of new technologies, strategic alliances or acquisitions made by our Group or our competitors, loss of key personnel, litigation or fluctuations in the market prices for the products or the services or the raw materials of our Group, the liquidity of the market for the Shares, the general market sentiment regarding the footwear design and development, production management and logistics management service industry could cause large and sudden changes in the volume and price at which the Shares will trade. In addition, the Stock Exchange and other securities markets have from time to time experienced significant price and volume fluctuations that are not related to the operating performance or prospects of any particular company. These fluctuations may also materially and adversely affect the market price of the Shares.

#### **3. Investors may experience dilution effect if our Group issues additional Shares upon exercise of options which may be granted under the Share Option Scheme or to raise funds in the future.**

Our Company may issue additional Shares upon exercise of options which may be granted under the Share Option Scheme in the future. The increase in the number of Shares outstanding after the issue would result in the reduction in the percentage ownership of the Shareholders and may result in a dilution in the earnings per Share and net asset value per Share.

In addition, our Group may need to raise funds in the future to finance business expansion or new development plans and acquisitions. If additional funds are raised through the issuance of new equity or equity-linked securities of our Company, other than on a pro rata basis to existing Shareholders, then the percentage ownership of those existing

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## RISK FACTORS

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Shareholders in our Company may be reduced, and they may experience subsequent dilution in the percentage ownership. Furthermore, any newly issued securities associated with preferred rights, options or privileges which the existing Shareholders are not entitled to may, in turn, have impact on the value of the Shares.

- 4. Shareholders and investors could face difficulties in protecting their interests because our Company was incorporated under the laws of the Cayman Islands and these laws could provide different protections to minority Shareholders than the laws of Hong Kong.**

Our corporate affairs are governed by the Memorandum and the Articles and by the Companies Law and common law of the Cayman Islands. The laws of the Cayman Islands relating to the protection of the interests of minority shareholders could differ in some respects from those established under statutes or judicial precedent in existence in Hong Kong. Such differences could mean that the minority Shareholders could have different protections than they would have under the laws of Hong Kong.

- 5. Our Controlling Shareholders may take actions that are not in, or may conflict with, public Shareholders' best interests.**

Our Controlling Shareholders will control the exercise of [REDACTED]% voting rights in the general meeting of our Company immediately after the [REDACTED] and the Capitalisation Issue (without taking into account of any Shares which may be allotted and issued upon the exercise of options that may be granted under the Share Option Scheme). Therefore, our Controlling Shareholders will continue to be able to exercise controlling influence over our business through their ability to take actions which do not require the approval of independent Shareholders. As such, our Controlling Shareholders have substantial influence over our business, including decisions regarding mergers, consolidations and the sale of all or substantially all of our assets, election of directors, timing and amount of dividends, if any, and other significant corporate actions. In the case where the interest of our Controlling Shareholders conflict with other Shareholders, or if our Controlling Shareholders choose to cause us to pursue objectives that would conflict with the interest of other Shareholders, such Shareholders could be left in a disadvantageous position by such actions caused by our Controlling Shareholders and the price of our Shares could be adversely affected.

- 6. Due to the time lag between pricing and trading of the Shares, there is a risk that the price of the Shares may fall before trading begins.**

Trading of the Shares on [REDACTED] will not commence until the [REDACTED], which is expected to be on [REDACTED]. During this period, investors may not be able to sell or otherwise deal in the Shares. Accordingly, holders of the Shares are subject to the risk that the Shares' price could fall before trading begins resulting from adverse market conditions or other adverse developments that could occur between the time of the sale and the time trading begins.

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## RISK FACTORS

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### **E. RISKS RELATING TO THE STATEMENTS MADE IN THIS [REDACTED]**

#### **1. We cannot guarantee the accuracy of information derived from various official government publications, industry sources or the Frost & Sullivan Report referred to in this [REDACTED].**

This [REDACTED] includes certain information that have been extracted from official government publications, industry sources or the Frost & Sullivan Report. We believe that these official government publications, industry sources and the Frost & Sullivan Report are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information in this [REDACTED]. We have no reason to believe that such information is false or misleading or that any material information has been omitted that would render such information false or misleading. Such information has not been independently verified by us, our Sole Sponsor, our [REDACTED], our Underwriters, any of their respective directors or any other party involved in the [REDACTED] and therefore, we make no representation as to the accuracy or completeness of such information.

Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice, the information derived from official government publications, industry sources and the Frost & Sullivan Report referred to in this [REDACTED] could be inaccurate or there is a risk that they are not comparable to information produced for other economies and should not be relied upon. Furthermore, we cannot assure you that the information are stated or compiled on the same basis or with the same degree of accuracy as may be in other cases.

In all cases, investors should give consideration as to how much weight or importance they should attach to, or place on, such information.

#### **2. Forward-looking statements in this [REDACTED] could prove inaccurate.**

This [REDACTED] contains certain forward-looking statements relating to the plans, objectives, expectations and intentions of our Directors. Such forward-looking statements are based on numerous assumptions as to our present and future business strategies and the development of the environment in which we operate. Our actual financial results, performance or achievements could differ materially from those discussed in this [REDACTED]. Investors should be cautions against placing undue reliance on any forward-looking statements as these statements involve known and unknown risks, uncertainties and other factors which could cause our actual financial results, performance or achievements to be materially different from our anticipated financial results, performance or achievements expressed or implied by these statements. We are not obliged to update or revise any forward-looking statements in this [REDACTED], whether by reason of new information, future events or otherwise.

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## RISK FACTORS

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- 3. You should read this entire [REDACTED] and we strongly caution you not to place any reliance on any information contained in press articles or media regarding us or the [REDACTED].**

There may be press and media coverage regarding us or the [REDACTED], which may include certain events, financial information, financial projections and other information about us that do not appear in this [REDACTED]. We have not authorised the disclosure of any other information not contained in this [REDACTED]. We do not accept any responsibility for any such press or media coverage and we make no representation as to the accuracy or completeness or reliability of any such information or publication. To the extent that any such information appearing in publications other than this [REDACTED] is inconsistent or conflicts with the information contained in this [REDACTED], we disclaim responsibility for them. Accordingly, prospective investors should not rely on any such information. In making your decision as to whether to subscribe for the Shares, you should rely only on the financial, operational and other information included in this [REDACTED].

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## INFORMATION ABOUT THIS [REDACTED] AND THE [REDACTED]

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[REDACTED]



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## **INFORMATION ABOUT THIS [REDACTED] AND THE [REDACTED]**

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[REDACTED]

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## **INFORMATION ABOUT THIS [REDACTED] AND THE [REDACTED]**

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[REDACTED]

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## INFORMATION ABOUT THIS [REDACTED] AND THE [REDACTED]

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[REDACTED]

## **DIRECTORS, SENIOR MANAGEMENT AND PARTIES INVOLVED IN THE [REDACTED]**

### **DIRECTORS**

| <b>Name</b> | <b>Residential Address</b> | <b>Nationality</b> |
|-------------|----------------------------|--------------------|
|-------------|----------------------------|--------------------|

#### *Executive Directors*

|                  |  |         |
|------------------|--|---------|
| Ho Kin Wai (何建偉) | Flat B, 2/F<br>Tower 9, Providence Bay<br>5 Fo Chun Road<br>Tai Po<br>New Territories<br>Hong Kong | Chinese |
|------------------|--|---------|

|                   |  |         |
|-------------------|--|---------|
| Ho Kin Pong (何建邦) | Flat C, 25/F, Block 7<br>Lake Silver<br>599 Sai Sha Road<br>Ma On Shan<br>New Territories<br>Hong Kong | Chinese |
|-------------------|--|---------|

#### *Independent non-executive Directors*

|                               |  |         |
|-------------------------------|--|---------|
| Yuen Poi Lam William<br>(袁沛林) | Unit 8E,<br>Tower 12, Costa Del Sol<br>8 Laguna Verde Avenue<br>Hung Hom<br>Kowloon<br>Hong Kong | Chinese |
|-------------------------------|--|---------|

|                   |  |         |
|-------------------|--|---------|
| Lu Tak Ming (盧德明) | Flat B, 7/F<br>Block 4, Beverley Heights<br>56 Cloud View Road<br>North Point<br>Hong Kong | Chinese |
|-------------------|--|---------|

|                        |   |         |
|------------------------|---|---------|
| Lee Tat Yin Rick (李達然) | 24A Nam Wa Po<br>2/F and roof<br>Tai Po<br>New Territories<br>Hong Kong | Chinese |
|------------------------|---|---------|

For further information on the profile and background of our Directors, please refer to the section headed “Directors, senior management and staff – Directors” in this [REDACTED].

## DIRECTORS, SENIOR MANAGEMENT AND PARTIES INVOLVED IN THE [REDACTED]

### SENIOR MANAGEMENT

| Name                          | Residential Address  | Nationality |
|-------------------------------|--|-------------|
| Tan, Jacky                    | Flat B, 32/F, Block 19<br>Double Cove Starview<br>8 Wu Kai Sha Road<br>Double Cove Phase 2<br>Lok Wo Sha<br>Ma On Shan<br>New Territories<br>Hong Kong | Australian  |
| Shek, Linus Man-keit<br>(石文傑) | Flat 26C<br>Block 7<br>Uptown<br>600 Castle Peak Road<br>Hung Shui Kiu<br>New Territories<br>Hong Kong   | British     |
| Tam Ching Han (譚靜嫻)           | Flat F, 8/F<br>Block 22, 8 Pak Tak Street<br>City One Shatin<br>Sha Tin<br>New Territories<br>Hong Kong  | Chinese     |
| Chun Wan Chee (曾韻慈)           | Flat A, 26/F, Block 2<br>Phase 1<br>Laguna Verde<br>Hung Hom<br>Kowloon<br>Hong Kong   | Chinese     |

For further information on the profile and background of our senior management, please refer to the section headed “Directors, senior management and staff – Senior management” in this [REDACTED].

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## DIRECTORS, SENIOR MANAGEMENT AND PARTIES INVOLVED IN THE [REDACTED]

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### PARTIES INVOLVED IN THE [REDACTED]

**Sole Sponsor** Kingston Corporate Finance Limited  
Suite 2801  
28th Floor, One International Finance Centre  
1 Harbour View Street  
Central, Hong Kong

[REDACTED] [REDACTED]

[REDACTED] [REDACTED]

**Legal advisers to our Company** *As to Hong Kong law:*  
TC & Co.  
Units 2201-3, 22nd Floor  
Tai Tung Building  
8 Fleming Road  
Wanchai, Hong Kong

*As to the PRC law:*  
JunZeJun Law Offices  
6/F South Tower  
Financial Street Centre  
No. 9 Financial Street  
Xicheng District  
Beijing, the PRC

*As to Cayman Islands law:*  
Appleby  
2206-19 Jardine House  
1 Connaught Place, Central,  
Hong Kong

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**DIRECTORS, SENIOR MANAGEMENT AND PARTIES INVOLVED IN THE [REDACTED]**

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|  |  |
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|  | <i>As to International Sanctions Laws:</i><br>DLA Piper Hong Kong<br>17/F, Edinburgh Tower<br>The Landmark<br>15 Queen's Road Central<br>Hong Kong   |
| <b>Legal advisers to our Sole Sponsor and our [REDACTED]</b> | <i>As to Hong Kong law:</i><br>Locke Lord<br>21/F Bank of China Tower<br>1 Garden Road<br>Central<br>Hong Kong<br><br><i>As to the PRC law:</i><br>Dentons (formerly known as Dacheng Law Offices)<br>17/F, Gongjiao Building<br>No.1001, Lianhuazhi Road<br>Futian District<br>Shenzhen 518036<br>the PRC |
| <b>Auditors and reporting accountants</b>                    | Deloitte Touche Tohmatsu<br>35/F., One Pacific Place<br>88 Queensway<br>Hong Kong  |
| <b>Industry consultant</b>                                   | Frost & Sullivan (Beijing) Inc., Shanghai Branch Co.<br>Room 1014-1018, Tower B<br>No. 500 Yunjin Road<br>Xuhui District<br>Shanghai, the PRC  |



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## CORPORATE INFORMATION

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| <b>Registered office</b>                           | PO Box 1350<br>Clifton House<br>75 Fort Street<br>Grand Cayman KY1-1108<br>Cayman Islands  |
| <b>Headquarter and principal place of business</b> | Unit 03, 15/F<br>909 Cheung Sha Wan Road<br>Cheung Sha Wan<br>Kowloon<br>Hong Kong   |
| <b>Authorised representatives</b>                  | Mr. Ho Kin Wai<br>Flat B, 2/F, Tower 9<br>Providence Bay<br>5 Fo Chun Road<br>Tai Po, NT<br>Hong Kong<br><br>Ms. Lee Kit Yu<br>Flat C, 28/F., Block 17<br>Laguna Verde<br>Hung Hom<br>Kowloon<br>Hong Kong |
| <b>Members of audit committee</b>                  | Mr. Yuen Poi Lam William ( <i>Chairman</i> )<br>Mr. Lu Tak Ming<br>Mr. Lee Tat Yin Rick  |
| <b>Members of remuneration committee</b>           | Mr. Lee Tat Yin Rick ( <i>Chairman</i> )<br>Mr. Ho Kin Wai<br>Mr. Yuen Poi Lam William   |
| <b>Members of nomination committee</b>             | Mr. Ho Kin Wai ( <i>Chairman</i> )<br>Mr. Lu Tak Ming<br>Mr. Lee Tat Yin Rick  |
| <b>Members of risk management committee</b>        | Mr. Ho Kin Wai ( <i>Chairman</i> )<br>Mr. Ho Kin Pong<br>Mr. Yuen Poi Lam William  |
| <b>Compliance adviser</b>                          | Kingston Corporate Finance Limited<br>Suite 2801<br>28th Floor, One International Finance Centre<br>1 Harbour View Street<br>Central, Hong Kong  |

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## CORPORATE INFORMATION

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|---|---|
| <b>Company website</b>                                      | esmart.hk<br><i>(Note: contents on this website do not form part of this [REDACTED])</i>  |
| <b>Compliance officer</b>                                   | Mr. Ho Kin Wai<br>Flat B, 2/F, Tower 9<br>Providence Bay<br>5 Fo Chun Road<br>Tai Po, NT<br>Hong Kong   |
| <b>Company secretary</b>                                    | Ms. Lee Kit Yu ( <i>HKICPA</i> )<br>Flat C, 28/F., Block 17<br>Laguna Verde<br>Hung Hom<br>Kowloon<br>Hong Kong   |
| <b>Principal bankers</b>                                    | Dah Sing Bank<br>34/F, Dah Sing Financial Centre<br>108 Gloucester Road<br>Central<br>Hong Kong<br><br>The Bank of East Asia<br>10 Des Voeux Road Central<br>Hong Kong<br><br>The Hongkong and Shanghai Banking<br>Corporation Limited<br>1 Queen’s Road Central<br>Hong Kong |
| <b>Principal share registrar and transfer office</b>        | [REDACTED]  |
| <b>Hong Kong branch share registrar and transfer office</b> | [REDACTED]  |

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## INDUSTRY OVERVIEW

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*This section contains certain information which is derived from official government publications and industry sources as well as a commissioned report from Frost & Sullivan. We believe that the sources of the information are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. 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. The information derived from the above sources has not been independently verified by us, our Sole Sponsor, our [REDACTED], our Underwriters or any of their affiliates or advisers, nor any other party involved in the [REDACTED] and no representation is given as to its accuracy. Please refer to the section headed “Risk factors – Risks relating to the statements made in this [REDACTED] – We cannot guarantee the accuracy of information derived from various official government publications, industry sources or the Frost & Sullivan Report referred to in this [REDACTED]” in this [REDACTED] for further information. We believe, after taking reasonable care, that there have been no material adverse changes in the market information since the date of issue of the Frost & Sullivan Report which may be qualify, contradict or have an impact on the information in this section.*

### SOURCE OF INFORMATION

We commissioned Frost & Sullivan to conduct an analysis of, among others, the global footwear market, China’s footwear design and development, production management and logistics management service industry and other relevant economic data and to prepare the Frost & Sullivan Report. We have agreed to pay a fee of RMB500,000 for the Frost & Sullivan Report, which we believe that such fee is in line with market rate. Our Directors are of the view that the payment of the fee does not affect the fairness of the conclusions drawn in the Frost & Sullivan Report. Frost & Sullivan is an independent global consulting firm with its headquarter based in the United States with over 50 years of industry experience, and has over 40 offices worldwide.

The Frost & Sullivan Report includes information on the global and China’s footwear market, analysis of the global and China’s footwear design and development, production management and logistics management service industry, China’s competitive landscape on footwear design and development, production management and logistics management service industry and other economic data. Frost & Sullivan undertook both primary and secondary independent research through various sources. Primary research involved discussing the status of the industry 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 total market size of the global and China’s footwear markets was obtained from historical data analysis plotted against macroeconomic data as well as specific industry related drivers.

The Frost & Sullivan Report was compiled based on the below assumptions:

- The respective economies of China and other developing countries such as India and Chile are likely to maintain steady growth in the next decade. Meanwhile, the economies in developed countries such as the UK, the US and Australia are forecasted to recover from 2016 to 2019;
- China’s social, economic and political environments are forecasted to remain stable from 2016 to 2019;
- Market drivers like increasing population in developing countries and economic recovery in developed countries are expected to drive the global footwear market; and
- Market drivers like increasing level of globalisation and its relevant impact on costs and consumer behaviour, economic growth of and increasing demand for footwear from developing economies, economic recovery in developed countries and increasing design and innovation capabilities of China’s footwear design and development, production management and logistics management service providers are expected to drive the China’s footwear design and development, production management and logistics management service industry.

### OVERVIEW OF GLOBAL FOOTWEAR MARKET

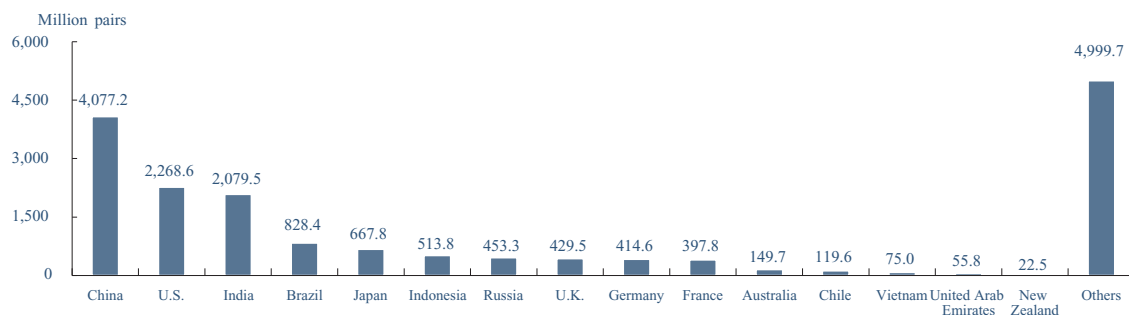
#### Major footwear consumption countries

In terms of volume, China has consistently reinforced its position as the largest footwear consumption country in recent years. In 2014, the footwear consumption for China was 4,077.2 million pairs, which was nearly twice as the consumption of 2,268.6 million pairs for the second

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largest footwear consumption country, the US. The third largest footwear consumption country in 2014 was India with footwear consumption of 2,079.5 million pairs. These three largest footwear consumption countries accounted for nearly 50% of the total global footwear consumption in 2014. Other major footwear consumption countries include Brazil, Japan and Indonesia. Based on the output volume, each of China, Brazil, India and Indonesia is also a major footwear production country. Set out below are global footwear consumption by countries in 2014.

### Footwear Consumption by Countries in 2014



Source: Frost & Sullivan

### Footwear import statistics of selected countries and their respective growth potential

According to Frost & Sullivan, global footwear consumption is likely to develop steadily with moderate growth. Set out below are the footwear import statistics of selected countries and their corresponding potential growth based on the information of the United Nations and Frost & Sullivan.

#### Total import volume of footwear from 2009 to 2019 (million pairs)

| Country     | 2009    | 2010    | 2011    | 2012    | 2013    | 2014    | 2015<br>(Note 1) | 2016<br>(Note 2) | 2017<br>(Note 2) | 2018<br>(Note 2) | 2019<br>(Note 2) |
|-------------|---------|---------|---------|---------|---------|---------|------------------|------------------|------------------|------------------|------------------|
| US          | 2,057.0 | 2,383.7 | 2,301.7 | 2,292.0 | 2,338.3 | 2,350.1 | 2,401.8          | 2,466.6          | 2,545.5          | 2,634.6          | 2,737.7          |
| UK          | 520.3   | 600.6   | 589.0   | 573.6   | 585.6   | 679.2   | 749.3            | 798.8            | 830.7            | 854.0            | 871.9            |
| Australia   | 115.5   | 136.6   | 132.2   | 107.3   | 145.5   | 139.6   | 141.7            | 145.7            | 151.0            | 158.0            | 165.8            |
| Chile       | 48.9    | 82.8    | 86.5    | 94.2    | 108.5   | 126.2   | 147.0            | 171.7            | 200.9            | 235.5            | 276.7            |
| New Zealand | 19.9    | 23.0    | 22.8    | 23.9    | 24.4    | 22.6    | 22.8             | 23.3             | 24.0             | 24.9             | 26.1             |

#### Total import value of footwear from 2009 to 2019 (USD billion)

| Country     | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015<br>(Note 1) | 2016<br>(Note 2) | 2017<br>(Note 2) | 2018<br>(Note 2) | 2019<br>(Note 2) |
|-------------|------|------|------|------|------|------|------------------|------------------|------------------|------------------|------------------|
| US          | 17.9 | 21.5 | 23.2 | 24.4 | 25.3 | 26.6 | 28.1             | 29.8             | 31.7             | 34.1             | 36.8             |
| UK          | 5.3  | 6.0  | 6.4  | 6.0  | 6.3  | 7.1  | 7.2              | 7.5              | 7.8              | 8.3              | 8.8              |
| Australia   | 1.0  | 1.2  | 1.3  | 1.5  | 1.5  | 1.6  | 1.7              | 1.8              | 2.0              | 2.2              | 2.4              |
| Chile       | 0.5  | 0.7  | 0.9  | 1.0  | 1.1  | 1.1  | 1.2              | 1.3              | 1.5              | 1.8              | 2.0              |
| New Zealand | 0.2  | 0.2  | 0.2  | 0.3  | 0.3  | 0.3  | 0.3              | 0.3              | 0.3              | 0.4              | 0.4              |

#### Average import price of footwear from 2009 to 2019 (USD/pair)

| Country     | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015<br>(Note 1) | 2016<br>(Note 2) | 2017<br>(Note 2) | 2018<br>(Note 2) | 2019<br>(Note 2) |
|-------------|------|------|------|------|------|------|------------------|------------------|------------------|------------------|------------------|
| US          | 8.7  | 9.0  | 10.1 | 10.6 | 10.8 | 11.3 | 11.7             | 12.1             | 12.5             | 12.9             | 13.4             |
| UK          | 10.2 | 10.0 | 10.9 | 10.4 | 10.8 | 10.5 | 9.6              | 9.3              | 9.4              | 9.7              | 10.0             |
| Australia   | 8.8  | 8.4  | 10.1 | 14.0 | 10.5 | 11.3 | 11.8             | 12.4             | 13.0             | 13.6             | 14.3             |
| Chile       | 11.0 | 8.8  | 10.7 | 10.8 | 10.4 | 8.9  | 8.1              | 7.6              | 7.5              | 7.5              | 7.5              |
| New Zealand | 9.6  | 9.4  | 10.6 | 11.0 | 11.1 | 12.5 | 13.1             | 13.7             | 14.4             | 15.1             | 15.9             |

Notes:

- Figures of US, Australia, Chile and New Zealand for 2015 are estimates provided by Frost & Sullivan.
- Figures of all countries from 2016 to 2019 are forecasts provided by Frost & Sullivan.

Source: Frost & Sullivan

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| Country     | Growth potential   |
|-------------|--|
| US          | The demand for footwear products in the US market is expected to be supported by its economic recovery and the increasing number of immigrants.                                |
| UK          | Due to the relatively stable economic development of UK as compared with other European countries, the UK footwear market is estimated to maintain a relatively stable growth. |
| Australia   | The growing aging population in Australia is expected to drive the demand for comfortable footwear.  |
| Chile       | As a fast developing country and with increasing per capita disposable income, the Chile footwear market is likely to see steady growing footwear consumption.                 |
| New Zealand | With the continuously growing aging population in New Zealand, the demand for comfortable footwear is expected to increase.  |

Source: Frost & Sullivan

### Segmentation of footwear

Footwear can generally be categorised into athletic footwear, children’s footwear, men’s footwear and women’s footwear by consumer characteristics. Meanwhile, footwear for men, women and children can be further segmented into formal footwear and casual footwear.

In addition, footwear can be categorised into three sectors according to the retail price of the footwear as follows:

|            | Footwear retail price |                 |                |
|------------|-----------------------|-----------------|----------------|
|            | Men                   | Women           | Children       |
| Low-end    | below USD50           | below USD60     | below USD8     |
| Middle-end | USD50 – USD165        | USD60 – USD180  | USD8 – USD60   |
| High-end   | USD166 – USD300       | USD181 – USD400 | USD61 – USD120 |

Source: Frost & Sullivan

### Raw materials for production of footwear

The major raw materials for production of footwear include natural leather, PU and rubber.

Due to the increase in production cost of natural leather, including the labour cost and waste treatment cost, the price for natural leather has been increasing. In China, the domestic market price of cattle leather, a typical type of natural leather used for footwear production, increased from approximately RMB14.2 per sq.ft. in 2009 to approximately RMB22.3 per sq.ft. in 2015, with a CAGR of 7.8% over such period.

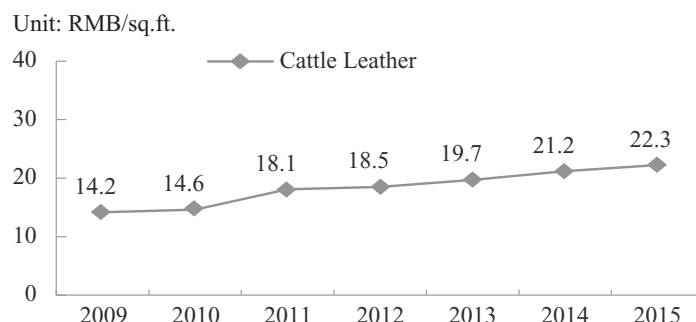
Methylene diphenyl diisocyanate (MDI) and toluene diisocyanate (TDI) are the major materials used in PU industry for the production of artificial leather and footwear outsole. As a result of the increasing production cost of pure MDI due to the use of advanced production technology and enhanced production facilities, the domestic market price of pure MDI in China increased from approximately RMB18,189 per tonne in 2009 to approximately RMB21,400 per tonne in 2015. On the other hand, due to the surplus in supply of TDI, the domestic market price of TDI in China decreased from approximately RMB23,310 per tonne in 2009 to approximately RMB12,827 per tonne in 2015.

3-Polybutadiene is a commonly used type of rubber for footwear production. As a side product of petroleum, the price of rubber mainly depends on the then market oil price. The price of 3-Polybutadiene fluctuated in the range between approximately RMB9,457 and approximately RMB30,225 per tonne during the period from 2009 to 2015.

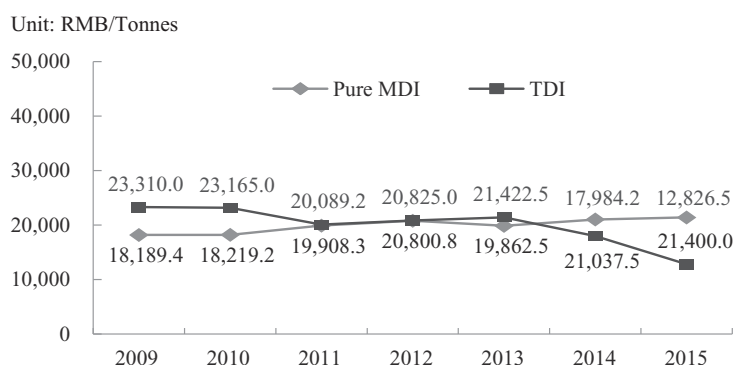
## INDUSTRY OVERVIEW

The three charts below illustrate the historical price trend of cattle leather, PU and 3-Polybutadiene rubber in China from 2009 to 2015:

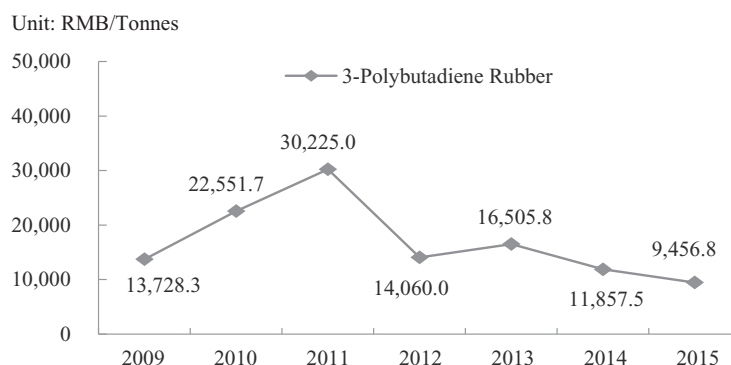
**Domestic Market Price of Cattle Leather in China**



**Domestic Market Price of PU in China**



**Domestic Market Price of 3-Polybutadiene Rubber in China**



Source: Frost & Sullivan

### Global footwear production

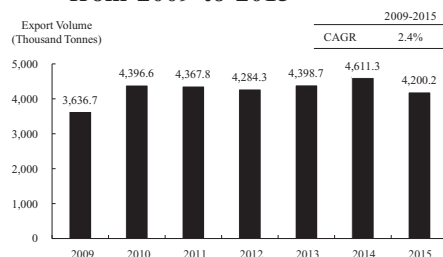
The global footwear production industry can be geographically separated into three major regions: Asia, Europe and Latin America. Based on the output volume, Asia accounted for over 70% of the total global footwear production in 2014. Footwear production in this region mainly includes manufacturers of China, India, Indonesia and Vietnam. Europe accounted for nearly 20% of the total global footwear production in 2014. The major footwear manufacturers in this region mainly target middle-end to high-end footwear sectors and are located mainly in Italy, Spain and Portugal. Latin American accounted for about 10% of the total global footwear production in 2014. Manufacturers of this region are mainly located in Brazil and Mexico.

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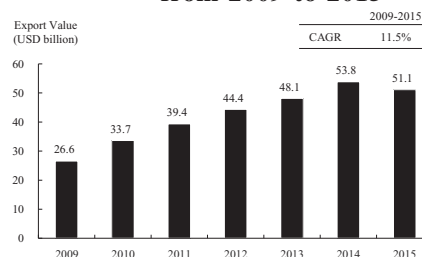
### China is the largest export country for footwear

In 2015, China was the largest footwear exporter worldwide with extensive manufacturing capabilities to cover a wide range of footwear from low-end to high-end. From 2009 to 2015, the total export volume of footwear in China grew at a CAGR of 2.4%, while the export value of footwear in China grew at CAGR of 11.5%. The total export volume and total export value of footwear of China from 2009 to 2015 are illustrated as below:

#### Total Export Volume of Footwear of China from 2009 to 2015



#### Total Export Value of Footwear of China from 2009 to 2015



Source: Frost & Sullivan

According to Frost & Sullivan, some Southeast Asian countries are becoming increasingly competitive in the global footwear market due to their lower production cost as compared to that of China and may affect the market share of China in the global footwear export market. However, China is still expected to be the largest footwear export country for the forecast period from 2016 to 2019 due to its long-term footwear development experience, mature footwear value chain and advanced manufacturing technology.

### Key market drivers of the global footwear market

According to Frost & Sullivan, the following are key market drivers of the global footwear market:

#### *Economic recovery in developed countries*

The overall economy for developed countries is recovering with growing GDP and per capita disposable income in recent years. The economic recovery in developed countries plays an important role in enhancing individuals' purchasing power, which people are willing to spend more on clothing and footwear and as a result drives the global footwear market.

#### *Increasing population in developing countries*

The population in developing countries such as India and Indonesia is increasing. These developing countries are not only major footwear manufacturing areas, they have become major footwear consumption countries in the global footwear market driven by growing footwear demand of the increasing population.

### Key market restraints of global footwear market

#### *Growing aging population globally*

According to Frost & Sullivan, customers in the working age group generally have higher purchasing power while youngsters usually have a propensity to spend more on footwear. As a result of better health care and increase in life expectancy, the size of the aging population has increased. It is expected that elderly customers have less incentive for footwear consumption which may negatively affect the global footwear market. Nevertheless, along with the aging of population, the demand of comfortable footwear is expected to maintain a promising upward momentum.

## ANALYSIS OF CHINA'S FOOTWEAR DESIGN AND DEVELOPMENT, PRODUCTION MANAGEMENT AND LOGISTICS MANAGEMENT SERVICE INDUSTRY

### Overview

According to Frost & Sullivan, footwear design and development, production management and logistics management service providers collaborate with customers to accommodate their needs and requirements and assist customers in footwear design and development. They also help customers to select suitable OEMs as manufacturing partners. During production management,



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such service providers conduct quality control over raw materials procured by OEMs and throughout the production process, provide necessary technical support and evaluate footwear OEMs’ performances. For logistics management, footwear design and development, production management and logistics management service providers manage the export arrangements and ensure customers’ orders are delivered in full on time.

### Major market drivers

#### *Globalisation*

Digital technology, free trade proliferation, and increasing labour cost in developed markets continue to drive the process of globalisation, which has been supporting the growth of China’s footwear design and development, production management and logistics management service industry. Globalisation enables service providers and manufacturers to optimise their cost structure and access an expanded consumer base. It also enriches the portfolio of products and brands from which consumers could choose, motivating them to ask for footwear with higher quality.

#### *Economic growth of and increasing demand from developing economies*

The global footwear design and development, production management and logistics management service industry is expected to be boosted by the economic growth of and the increasing demand of footwear from developing economies, such as China, India, and some countries in the South America and Southeast Asia. With the increasing prosperity and higher standards of living in these countries, demand for footwear is likely to maintain a promising upward momentum and drive the growth of the footwear market as well as footwear design and development, production management and logistics management service industry.

#### *Economic recovery in developed economies*

Economic recovery and growth in developed economies is expected to continue to support the growth of the global footwear market as well as the footwear design and development, production management and logistics management service industry. Economic recovery is likely to support an increase in income and living expenditure, including people’s spending on footwear. Major developed economies such as the US and the UK generally utilise offshore manufacturing for footwear, and their major origins of import are China and other countries in Southeast Asia and Latin America. Therefore, the economic recovery of these developed economies is expected to positively impact the offshore footwear manufacturing industry and the corresponding footwear design and development, production management and logistics management service industry.

#### *Increasing design and innovation capabilities of China’s footwear design and development, production management and logistics management service providers*

China’s footwear design and development, production management and logistics management service providers are experiencing transition from imitating designs to originating designs. This transition is facilitated by increasing number of technical talents, more dedicated studies on customer needs and preferences and increasing investment in design and development technology. With the increased design and innovation capability, China’s footwear design and development, production management and logistics management service providers are able to handle more advanced orders from customers.

### Major market restraints

#### *Anti-dumping measures targeting China’s footwear export*

China has been the world’s largest exporter of footwear and it is one of the main targets of foreign anti-dumping investigations. The anti-dumping measures imposed by other countries such as anti-dumping duty on leather shoes charged by Brazil and Argentina may be a key restraint to China’s footwear export as well as the footwear design and development, production management and logistics management service providers that rely mainly on OEMs in China.

#### *Increasing competitiveness of footwear exported from Southeast Asian countries*

Due to the rising rents, labour, and management costs in China, some brand owners and licensees have started to source footwear from OEMs or footwear design and development, production management and logistics management service providers in Southeast Asia, where raw materials and labour costs are lower. Correspondingly, footwear design and development, production management and logistics management service providers in Southeast Asian countries

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are expected to become increasingly competitive and may affect the market share of footwear design and development, production management and logistics management service providers in China.

### *Declining population growth in developed economies*

Declining population growth is a general issue among developed economies such as Australia and the UK. For some smaller developed economies in Europe, the population growth is even negative. This is likely to negatively impact global footwear consumption as well as the footwear design and development, production management and logistics management service industry.

### *Relatively weaker intellectual property protection in China*

Counterfeit issue is a major concern of the footwear brand owners and licensees when sourcing footwear in China. For footwear, especially high-end and premium ones, product design is the crucial essence and major value of a brand. Lack of intellectual property protection in China may affect the reputation of footwear design and development, production management and logistics management service providers in China.

## **Key entry barriers**

The key entry barriers for new entrants include the following:

### *Reputation*

Footwear brand owners and licensees tend to cooperate with leading footwear design and development, production management and logistics management service providers with extensive experience and good reputation.

### *OEM network*

As footwear production is undertaken by OEMs, footwear design and development, production management and logistics management service providers generally lack manufacturing capability. Strong OEM network significantly benefits existing participants and creates difficulties for potential entrants to develop their business within the industry.

### *Design capability*

Instead of merely serving as an agent to seek for OEMs and pass the footwear designs provided by customers to OEMs, providing design and liaison between OEMs and customers by footwear design and development, production management and logistics management service providers are increasingly popular and gradually becoming the mainstream practice and an entry barrier for new entrants of the industry.

### *Trading and export network*

Footwear design and development, production management and logistics management service providers generally target for overseas customers. A strong trading and export network would have significant advantages in shipment arrangements, which increases the overall efficiency and effectiveness of their services provided to customers.

## **Future outlook**

According to Frost & Sullivan, the future outlook of footwear design and development, production management and logistics management service industry in China is as follows:

### *Vertical integration*

Footwear design and development, production management and logistics management service providers in China have started to integrate different roles including footwear design, sourcing and logistic arrangement. This vertical integration enables footwear design and development, production management and logistics management service providers to provide more comprehensive services to their customers and at the same time increase their bargaining power and competitiveness. As the customers can save cost and time from engaging separate service providers, manufacturers and logistic companies by themselves along the supply chain, the vertical integration is a general trend for the footwear design and development, production management and logistics management service industry.

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### *Premiumisation*

With the increase in rents, labour and management costs in China and the increasing competitiveness of the Southeast Asian participants, China’s footwear design and development, production management and logistics management service industry is expected to observe an upward momentum in positioning, and focus more on the middle-end and high-end footwear sectors. Furthermore, this trend is likely to be supported by increasing competitiveness of OEMs/ODMs and footwear design and development, production management and logistics management service providers in China in handling advanced orders, owing to their continuously improving manufacturing and innovation capabilities.

### *Increasing concentration*

Footwear design and development, production management and logistics management service industry in China is highly fragmented with thousands of participants and low level of concentration. Participants have to increase their competitiveness to survive in the market. It is expected the participants of footwear design and development, production management and logistics management service industry will concentrate into two groups which are more competitive and able to remain in the market in the long run: (i) participants who are large in size with significant economies of scale and sufficient resources; and (ii) participants who are small medium enterprises with high flexibility, quick response and adaptability to market trends.

### **Competitive landscape**

According to Frost & Sullivan, footwear design and development, production management and logistics management service providers in China can be categorised into 3 tier groups based on features including their scope of service, total revenue, target footwear sectors and manufacturing capability:

|               | Scope of service   | Principal features <sup>(1)</sup>   |                                    | Manufacturing capability   | Number of providers as at 31 December 2015 | Number of employees   | Gross profit margin <sup>(2)</sup> | Net profit margin <sup>(2)</sup> |
|---------------|--|---|------------------------------------|--|--|---|------------------------------------|----------------------------------|
|               |  | Target footwear sector(s)   | Total annual revenue               |  |  |   |                                    |                                  |
| <b>Tier 1</b> | Comprehensive services including design and quality control  | High-end footwear sector, but may also target middle-end footwear sector to diversify their customer base and expand their scale of operation             | Over HK\$500 million               | Usually have their own manufacturing capability to reduce outsourcing risks  | Not more than 20                           | Over 5,000 (most employees are engaged in footwear manufacturing with about 100 to 200 employees providing footwear design and development, production management and logistics management service) | 20-30%                             | 5-10%                            |
| <b>Tier 2</b> | Comprehensive services including design and quality control  | Middle-end to high-end footwear sectors, but may also target low-end footwear sector to diversify their customer base and expand their scale of operation | HK\$100 million to HK\$500 million | Usually do not have their own manufacturing capability, but maintain long-term relationships with OEMs with large manufacturing capability | Over 500                                   | About 50  | 10-20%                             | 3-5%                             |
| <b>Tier 3</b> | Sourcing of OEMs and logistics management, but lack design capabilities and merely copy footwear designs from brand owners | Low-end footwear sector   | Below HK\$100 million              | Usually do not have their own manufacturing capability   | About thousands                            | About 10  | Less than 10%                      | Less than 3%                     |

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*Notes:*

1. There are some exceptional cases where a footwear design and development, production management and logistics management service provider does not possess all of the features of a particular tier group but is still being classified in that particular tier group based on the major features that a footwear design and development, production management and logistics management service provider has.
2. Neither gross profit margin nor net profit margin is a feature for distinguishing the 3 tier groups of footwear design and development, production management and logistics management service providers. They indicate the range of profit margins generally recorded by the service providers in a particular tier group but do not necessarily apply to all the service providers in that tier group.

According to Frost & Sullivan, service providers in the tier 1 group are relatively concentrated. There are not more than 20 service providers in the tier 1 group and the three largest service providers accounted for nearly 70% of the market share in the tier 1 group in terms of revenue in 2014. Service providers in the tier 1 group generally have stable and long-term relationships with their customers and good reputation in China’s footwear design and development, production management and logistics management service industry, and therefore the service providers in the tier 1 group face less competition as compared to those in the tier 2 and tier 3 groups. The tier 2 group comprises over 500 service providers. Hence, competition within the tier 2 group is generally more intense than that within the tier 1 group. Those service providers with good reputation, established relationships with footwear brand owners and strong OEM network will normally have competitive advantages within the tier 2 group. The tier 3 group is highly fragmented with thousands of service providers. As compared with the service providers in the tier 1 and tier 2 groups, they are small in scale, lack design capabilities and usually do not have a strong OEM network. As such, the service providers in the tier 3 group are less competitive in the industry.

According to Frost & Sullivan, (i) the total revenue of the China footwear design and development, production management and logistics management service industry reached approximately HK\$143.0 billion in 2014, among which the revenue of tier 1 group, tier 2 group and tier 3 group reached approximately HK\$25.0 billion, HK\$50.0 billion and HK\$68.0 billion, respectively, representing approximately 17.5%, 35.0% and 47.5%, respectively, of the total revenue of the industry for that year; (ii) our Group had a market share of approximately 0.5% and 0.2% in terms of the respective total revenue of the tier 2 group and the entire China footwear design and development, production management and logistics management service industry in 2014; and (iii) our Group was one of the three largest footwear design and development, production management and logistics management service providers in the tier 2 group in China in 2014 in terms of revenue.

The gross profit margin of our Group for the three years ended 31 December 2015 was approximately 11.6%, 12.5% and 13.6% respectively, which was within the range of the gross profit margin of 10% to 20% of the footwear design and development, production management and logistics management service providers in the tier 2 group as set out in the Frost & Sullivan Report.

The net profit margin of our Group for the three years ended 31 December 2015 was approximately 3.3%, 3.4% and 2.1% respectively. The decline in our net profit margin for the year ended 31 December 2015 was primarily attributable to the incurrence of [REDACTED] expenses of approximately HK\$[REDACTED] during the year. Without taking into account the non-recurring [REDACTED] expenses, the normalised net profit margin of our Group for the three years ended 31 December 2015 was approximately 3.3%, 4.4% and 4.5% respectively (please refer to the section headed “Financial information – Discussion of selected components of our results of operations – Net profit margin and normalised net profit margin” in this [REDACTED] for further details), which was within the range of the net profit margin of 3% to 5% of the footwear design and development, production management and logistics management service providers in the tier 2 group as set out in the Frost & Sullivan Report. Based on the estimation of Frost & Sullivan, the profit margin of the footwear design and development, production management and logistics management service providers in China is likely to maintain at stable level in the coming few years.

### **Demand for footwear design and development, production management and logistics management services in China**

According to Frost & Sullivan, footwear brand owners and licensees in developed countries such as the US, the UK, Australia and other European countries generally adopt offshore manufacturing for their footwear with an aim of minimising their product cost. In order to maintain the quality of footwear, footwear design and development, production management and logistics management service providers become increasingly important in serving their role as a linkage between the footwear brand owners and/or licensees and their offshore manufacturers.

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The vertically integrated services offered by the service providers such as design and development, selection of suitable OEMs, production management and logistics management can help in enhancing the operational efficiency and cost effectiveness of the footwear brand owners and licensees.

With its mature footwear value chain and advanced manufacturing technology, China has become one of the major footwear manufacturing countries in the global footwear market and was the largest footwear exporter worldwide in 2015. The demand for footwear design and development, production management and logistics management services in China is also well supported by its active footwear manufacturing industry. Based on the estimation of Frost & Sullivan, with the continuous increase in labour cost in developed countries as well as the strong production capability of footwear manufacturers and long-term experience in the provision of comprehensive footwear design and development, production management and logistics management services by the service providers in China, it is expected that the footwear brand owners and licensees will continue their strategy of offshoring manufacturing of footwear to China. Therefore, the demand for footwear design and development, production management and logistics management services in China is expected to have continuous and stable growth, especially under the effect of globalisation, which enables participants in the footwear market to optimise their cost structure.

According to Frost & Sullivan, the demand for footwear design and development, production management and logistics management services provided by service providers in the tier 1 and tier 2 groups in China is expected to maintain steady growth as these service providers have accumulated extensive experience in the footwear industry and are able to provide reliable comprehensive services to their customers. Such service providers generally possess good footwear design and development capabilities and have established stable relationships with footwear brand owners and licensees as well as OEMs, enabling them to capture the demand in the footwear design and development, production management and logistics management service market. In comparison, the footwear design and development, production management and logistics management service providers in the tier 3 group in China are small in scale and lack design capabilities as well as OEM network, and are therefore less competitive in facing increasing competition from footwear design and development, production management and logistics management service providers in other countries, including some Southeast Asian countries which are becoming increasingly competitive in the global footwear market due to their lower production cost as compared to that of China. This may affect the demand for footwear design and development, production management and logistics management services provided by service providers in the tier 3 group in China in the long run.

### **Selling price of footwear offered by footwear design and development, production management and logistics management service providers in China**

Set out below is the selling price of footwear in the three footwear sectors offered by the footwear design and development, production management and logistics management service providers in China to their customers:

| Selling price of footwear<br>offered by footwear design and development, production<br>management and logistics management service providers in China |               |                |               |
|---|---------------|----------------|---------------|
|   | Men           | Women          | Children      |
| <b>Low-end</b>  | below USD10   | below USD15    | below USD4    |
| <b>Middle-end</b>   | USD10 – USD35 | USD15 – USD45  | USD4 – USD25  |
| <b>High-end</b>   | USD36 – USD80 | USD46 – USD100 | USD26 – USD50 |

Source: Frost & Sullivan

### **Key competitive advantages of our Group**

According to Frost & Sullivan, the key competitive advantages of our Group include:

#### *Good partnership with brand owners*

Our Group has established reliable and long term partnership with a number of well-known footwear brand owners and licensees, and is continuing to maintain and develop our partnerships with them.

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## INDUSTRY OVERVIEW

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### *Stable business relationships with OEMs*

Our Group has maintained stable and good business relationships with OEMs located in major footwear production areas in China, including Wenzhou, Fujian and Dongguan, which is important for our Group to provide high quality footwear and delivery of orders on time.

### *Outstanding reputation*

Comparing with other footwear design and development, production management and logistics management service providers, our Group pays more attention in building its reputation among suppliers and customers by maintaining products with high quality, delivering products on time and offering attractive order terms. Such outstanding reputation plays an important role in identifying our market position and attracting new customers.

### *Comprehensive value added services*

Apart from finding OEMs and sourcing footwear, our Group offers value added services including footwear design and quality control. These comprehensive services help our Group gain advantages among competitors.

### *Good product design and development capabilities*

Different from other competitors, our Group has good capabilities in product design and development. We are able to identify the requirements of customers based on our industry experience when participating in footwear design with customers.



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## REGULATORY OVERVIEW

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### HONG KONG REGULATORY OVERVIEW

There is no specific law or regulation in Hong Kong in relation to the licences and permits which are required for the operation of our business in Hong Kong. As confirmed by our Directors, to the best of their knowledge, save for disclosed in this [REDACTED] (if any), our Group has obtained all necessary permits, approvals and licences to operate its existing business in Hong Kong from relevant governmental bodies since its establishment. Given the business engaged by our Group, our Directors confirmed that our Group had not been subject to any specific regulations and trading rules in Hong Kong and no particular or specific licence or permit was required for our Group to carry out its business in Hong Kong as at the Latest Practicable Date.

### PRC REGULATORY OVERVIEW

This section sets forth summaries of certain laws and regulations of the PRC relating to the operation and business of our Group.

#### 1. FOREIGN INVESTMENT

##### (1) Wholly Foreign-Owned Enterprise Law

The establishment of procedures, approval procedures, registered capital requirement, foreign exchange restriction, accounting practices, taxation and labour matters with respect to wholly foreign-owned enterprises are governed by the Wholly Foreign-Owned Enterprise Law of the PRC (《中華人民共和國外資企業法》), which was promulgated by the Standing Committee of the NPC on 12 April 1986 and amended on 31 October 2000, the Implementation Rules under the Wholly Foreign-Owned Enterprise Law (《中華人民共和國外資企業法實施細則》), which was promulgated by the State Council on 12 December 1990 and amended on 12 April 2001 and was partly amended by Decision of the PRC State Council on Repealing and Amending Some Administrative Regulations (2014) (《國務院關於廢止和修改部分行政法規的規定(2014)》) on 19 February 2014.

##### (2) Catalogue for the Guidance of Foreign Investment Industries (2015 edition)

The National Development and Reform Commission and the Ministry of Commerce of the People’s Republic of China jointly published the Catalogue for the latest Guidance of Foreign Investment Industries (《外商投資產業指導目錄》) on 10 March 2015 and came into effected on 10 April 2015 (the “**FIE Catalogue 2015**”). The FIE Catalogue 2015 sets out the industries encouraged, restricted and prohibited for foreign investment. All industries not on the list are allowed for foreign investment.

In accordance with FIE Catalogue 2015, the business of the Tin Da is allowed for foreign investment, and we have obtained all the necessary approvals from competent PRC governmental authorities in respect of our investments and business operations in PRC.

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## REGULATORY OVERVIEW

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### (3) Approval on Foreign Invested Projects

Pursuant to the Decision on Reform of Investment System (《關於投資體制改革的決定》) promulgated by the State Council on 16 July 2004, the central government of the PRC has the power to determine whether the approval and/or filing system applies to a specific investment. Accordingly, the State Council released the Investment Project Catalogue subject to the approval of Government (《政府核准的投資項目目錄》) on 16 July 2004 and revised on 2 December 2013 and 31 October 2014 (the “**NDRC Catalogue 2014**”). Under NDRC Catalogue 2014, any enterprise engaged in an enterprise investment projects that falls in one or more listed items therein is subject to approvals of central government or competent local government (as the case may be). Enterprise investment projects other than those listed in the **NDRC Catalogue 2014** should be filed with the competent administrative department of the government.

Pursuant to the Administrative Measures for Approval and Filing of Foreign Investment Projects (《外商投資項目核准和備案管理辦法》) promulgated by NDRC on 17 May 2014, the Chinese controlled encouraged foreign invested projects under FIE Catalogue 2015 with total investment (including capital increase) of US\$300 million or above and the restricted foreign invested projects under FIE Catalogue 2015 with total investment (including capital increase) of US\$50 million or above shall be approved by the NDRC, and the Chinese controlled encouraged foreign invested project under FIE Catalogue 2015 with total investment (including capital increase) of less than US\$300 million and the restricted foreign invested projects under FIE Catalogue 2015 with total investment (including capital increase) of less than US\$50 million shall be approved by the local government. Except for the aforesaid projects, the foreign invested projects are only subject to filing with the competent government authorities. Since the business of Tin Da does not fall in one or more of the aforesaid projects, Tin Da is subject to filing only and no approval will be necessary.

## 2. FOREIGN EXCHANGE

### (1) Foreign Exchange Administration

The Regulation on the Administration of Settlement, Sale and Payment of Foreign Exchange (《結匯、售匯及付匯管理規定》) governs foreign exchange transactions of foreign invested enterprise, which was promulgated by the People’s Bank of China on 20 June 1996 and became effective on 1 July 1996. According to the regulation, foreign invested enterprises are permitted to convert after-tax dividends into foreign exchange and to remit such foreign exchange from their bank accounts in the PRC. Foreign invested enterprises may also effect payments for current account items without approval of the SAFE, with valid receipts and proof of the relevant transactions. However, prior approval from SAFE is required for foreign exchange conversions for capital account items, including direct investments and capital contributions.

Under the Foreign Currency Administration Rules of the PRC (《中華人民共和國外匯管理條例》) promulgated by the State Council and amended on 14 January 1997 and on 1 August 2008, and various regulations issued by SAFE, RMB may be converted into foreign currencies without approval for the purpose of current account items, including the distribution of dividends, interest payments, trade and service-related foreign exchange



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## REGULATORY OVERVIEW

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transactions. Conversion of RMB into other currencies for capital account items, such as direct investments, loans, security investments and repatriation of investments, however, is still subject to the approval of SAFE or its competent local branches. Under Foreign Currency Administration Rules of the PRC, enterprises may only buy, sell or remit foreign currencies at those banks authorised to conduct foreign exchange business after providing valid commercial documents and relevant supporting documents and, in the case of capital account item transactions, obtaining approval from SAFE or its competent local branches. Capital investments by enterprises outside of the PRC are also subject to limitations, which include approvals by MOFCOM, SAFE and NDRC, or their respective competent local branches.

In addition, SAFE issued the Circular on the Relevant Operating Issues Concerning the Improvement of the Administration of the Payment and Settlement of Foreign Currency Capital of Foreign Invested Enterprises (《國家外匯管理局綜合司關於完善外商投資企業外匯資本金支付結匯管理有關業務操作問題的通知》) on 29 August 2008, regulating the conversion of foreign currency into RMB by a foreign-invested company by restricting how the converted RMB may be used. The above circular requires that the registered capital of a foreign-invested enterprise settled in RMB that is converted from foreign currencies may only be used for those items as stipulated in the business scope as approved by the applicable governmental authority and may not be used for equity investments within the PRC. In addition, SAFE strengthened its oversight of the flow and use of the registered capital of foreign-invested enterprises settled in RMB converted from foreign currencies.

On 19 November 2012, SAFE promulgated the Circular of Further Improving and Adjusting Foreign Exchange Administration Policies on Foreign Direct Investment (《國家外匯管理局關於進一步改進和調整直接投資外匯管理政策的通知》)(the “**Circular 59**”), which became effective on 17 December 2012. The Circular 59 substantially amends and simplifies the current foreign exchange procedure. According to the Circular 59, the opening of various special purpose foreign exchange accounts no longer requires SAFE’s approval or verification, and purchase and remittance of foreign exchange as a result of capital reduction, liquidation, early repatriation or share transfer in a foreign invested enterprise no longer requires SAFE’s approval.

Pursuant to Circular of the State Administration of Foreign Exchange on Issuing the Regulations of Foreign Exchange Management Related Issues of Trade in Goods (《國家外匯管理局關於印發貨物貿易外匯管理法規有關問題的通知》), Guideline for the Pilot Implementation of Foreign Exchange Administration of Trade in Goods (《貨物貿易外匯管理指引》) and the Detailed Rules for the Implementation of the Guideline for the Pilot Implementation of Foreign Exchange Administration of Trade in Goods (《貨物貿易外匯管理指引實施細則》), promulgated by SAFE on 27 June 2012 and came into effect on 1 August 2012, the foreign exchange authorities shall carry out registration administration based on the “List of Enterprises Involved in Foreign Exchange Receipts and Payments from Trade” (the “**List**”) and shall issue the List to the financial institutions in a unified way. The financial institutions shall not handle foreign exchange receipts and payments from trade for enterprises that are not included in the List. In addition, enterprises that have the right to engage in foreign trade according to the law shall handle the registration formalities for the

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## REGULATORY OVERVIEW

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List with the foreign exchange authorities. The enterprises shall handle the foreign exchange receipts and payments from trade based on the principle “the exporter shall make collection of the foreign exchange earned while the importer pays the foreign exchange”.

### (2) Circular 37

Pursuant to Circular of the State Administration of Foreign Exchange on Issues Concerning the Administration of Foreign Exchange in Offshore Investments and Financing and Return Investments by Domestic Residents through Special Purpose Vehicles (《國家外匯管理局關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》) (the “**Circular 37**”), which was promulgated by SAFE and became effective on 4 July 2014, where the PRC individual residents conduct investment to the offshore special purpose vehicles (the “**SPVs**”) with their legitimate onshore and offshore assets or equities, they must register with local SAFE branches with respect to their investments. The Circular 37 also requires the PRC domestic residents to file changes to their registration where their offshore SPVs undergo material events such as the change of basic information including PRC individual residence shareholder, name and operation period, as well as capital increase or decrease, share transfer or exchange, merger or division.

Since both Mr. KC Ho and Mr. KW Ho are Hong Kong permanent residents other than PRC domestic residents as defined under the Circular 37, none of Mr. KC Ho and Mr. KW Ho is subject to the registration requirements thereunder for the Reorganisation and the [REDACTED].

### (3) Dividend Distribution

The principal laws governing dividend distributions by Tin Da include the PRC Company Law (《中華人民共和國公司法》), which was promulgated on 29 December 1993 and became effective on 1 July 1994 and was subsequently amended on 25 December 1999, 28 August 2004 and 27 October 2005 and on 28 December 2013. Dividend distribution by a wholly foreign-owned enterprise is further governed by Wholly Foreign-Owned Enterprise Law of the PRC and its Implementation Regulations.

## 3. ENVIRONMENTAL PROTECTION

The Environmental Protection Law of the People’s Republic of China (《中華人民共和國環境保護法》) (the “Environmental Protection Law”), which was amended on 24 April 2014 and came into force on 1 January 2015, aims to protect and improve the environment, prevent and reduce pollution and other public hazards, and safeguard human health. The State Environment Protection Administration of China, currently renamed as the Ministry of Environment Protection of China, is responsible for the overall supervision and administration of environmental protection work in the PRC and formulates national standards for pollutants and waste materials discharged in the PRC.

According to the Environmental Protection Law, where the construction of a project may cause any pollution to the environment, an environmental impact assessment must be performed to determine the preventive and remedial measures to be adopted, and the relevant environmental protection administration approval shall be obtained. Enterprises

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## REGULATORY OVERVIEW

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discharging pollutants must register with relevant environmental protection administration departments. Enterprises discharging pollutants in excess of the standards shall be responsible for paying a sewage discharge fee for exceeding the standard and the cost of eliminating the pollutants.

Depending upon the circumstances and the extent of the pollution, the relevant environmental protection administration authorities may impose various types of penalties on persons or enterprises who are in violation of the Environmental Protection Law, including issuance of a warning notice; imposition of a fine; determination of a time limit for rectification; issuance of an order to reinstall and resume operation of environmental protection facilities which have been dismantled or left unused; issuance of an order to suspend production or to suspend and close the business; imposition of administrative sanctions or investigation and establishment of criminal liabilities against the personnel in charge. In addition, in cases where the pollution causes damage to others, civil indemnification to victims shall be required.

The Environmental Protection Law is applicable to Tin Da and Tin Da has complied with all necessary requirements under the Environmental Protection Law.

### 4. LABOUR

#### (1) Employment Contract

According to the Labour Law of the PRC (《中華人民共和國勞動法》) promulgated on 5 July 1994 and effective on 1 January 1995, enterprises and institutions shall establish and perfect their system of work place safety and sanitation and strictly abide by state rules and standards on work place safety and sanitation, provide training for labours on the safety and sanitation of work place. Labour safety and sanitation facilities shall comply with statutory standards. Enterprises and Institutions shall provide employees with a safe work place and sanitation conditions which are in compliance with relevant laws and regulations of labour protection.

Pursuant to the Labour Contract Law of the People's Republic of China (《中華人民共和國勞動合同法》) (the "**Labour Contract Law**"), came into force on 1 January 2008, written labor contract shall be entered into between an enterprise or institution and each of its employees for new and existing employment relationship. Enterprises and institutions shall not demand their employees to work overtime unless overtime allowance is paid in accordance with laws and regulations. Wages shall not be lower than the local minimum wages and shall be paid on time.

#### (2) Employee Funds

In accordance with the Regulations on Occupational Insurance (《工傷保險條例》) effective on 1 January 2004, the Interim Measures concerning the Maternity Insurance for Enterprise Employees (《企業職工生育保險試行辦法》) effective on 1 January 1995, the Interim Regulations concerning the Levy of Social Insurance (《社會保險費徵繳暫行條例》) effective on 22 January 1999, the Interim Measures concerning the Administration of the Registration of Social Insurance (《社會保險登記管理暫行辦法》) effective on 19 March 1999,

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and the Social Insurance Law of the PRC (《中華人民共和國社會保險法》) implemented on 1 July 2011, enterprises and institutions in PRC shall provide their employees with welfare schemes concerning pension insurance, unemployment insurance, maternity insurance, occupational injury insurance and medical insurance.

Enterprises must apply for social insurance registration with local social insurance agencies and pay premiums for their employees. If an enterprise fails to pay the required premiums on time or in full amount, the authorities in charge will demand the enterprise to settle the overdue amount within a stipulated time period and impose a 0.05% overdue fine. If the overdue amount is still not settled within the stipulated time period, an additional fine with an amount of one to three times of the overdue amount will be imposed.

According to the Regulations on the Administration of Housing Provident Funds (《住房公積金管理條例》) effective on 3 April 1999 and amended on 24 March 2002, enterprises must register with the competent managing center for housing provident funds and, upon the examination by such administration center of housing provident fund, complete procedures for maintaining an account at the relevant bank for the deposit of employees’ housing provident funds. Employers are required to contribute, on behalf of their employees, to housing provident funds. The payment is required to be made to local administrative authorities. Any employer who fails to contribute will be ordered to make good the deficit by the competent authorities within a stipulated time limit.

### 5. TAXATION

#### (1) Enterprise Income Tax

Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法》) (the “**EIT Law**”) was promulgated by the 5th Session of the 10th National People’s Congress of the People’s Republic of China on 16 March 2007 and effective on 1 January 2008, and the Regulation on the Implementation of Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法實施條例》) (the “**EIT Rules**”) was promulgated on 6 December 2007 and became effective from 1 January 2008.

According to the EIT Law, enterprises are classified as either “resident enterprises” or “non-resident enterprises”. Enterprises established under foreign law with “de factor management bodies” outside the PRC but have an establishment or place of business in the PRC, or which do not have an establishment or place of business in the PRC but have income originating from PRC are considered as “non-resident enterprises”, which shall pay income tax at the rate of 10% in relation to the income originating from PRC unless a tax treaty benefit can be claimed. Enterprises established under the laws of foreign countries or regions whose “de facto management organisation” located within the PRC territory are considered as “resident enterprises”, and thus generally be subject to the enterprise income tax at the rate of 25% on their global income. The implementing rules of the EIT Law define “de facto management” as “bodies that substantially carry out comprehensive management and control on the business operation, employees, accounts and assets of enterprises”.

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According to the EIT Law and the notice on Relevant Issues Concerning the Preferential Policies of Enterprise Income Tax applicable to Small Meager-Profit Enterprises (《關於小型微利企業所得稅優惠政策有關問題的通知》) jointly issued by the Ministry of Finance and the State Administration of Taxation on 8 April 2014, the enterprise income tax levied on a qualified small meager-profit enterprise shall be reduced at the rate of 20%. And according to the EIT Rules and above notice, a “qualified small meager-profit enterprise” means an enterprise that operates in an industry not restricted by the PRC government and satisfies the following conditions: (a) operating in the industrial industry, with an annual taxable income of no more than RMB300,000, a payroll size of at most 100 persons, and a total amount of assets not exceeding RMB30 million; or (b) other industry, with an annual taxable income of no more than RMB300,000, a payroll size of at most 80 persons, and a total amount of assets not exceeding RMB10 million.

Moreover, according to the EIT Law and the EIT Rules, foreign-invested enterprises shall withhold 10% income tax in respect of profit distributed to an overseas investor subject to special tax arrangement between PRC and the country of the overseas investor. According to the arrangement between mainland China and Hong Kong, the maximum withholding enterprise income tax rate is 5% in respect of dividends remitted to overseas investor provided that the investor is interested in no less than 25% of capital for more than 12 months. According to the Notice of the State Administration of Taxation on the Issues concerning the Distribution of Dividend under Tax Agreements (《國家稅務總局關於執行稅收協定股息條款有關問題的通知》), PRC resident enterprises may enjoy a favorable tax rate of 5% in respect of dividends remitted to shareholder enterprises in Hong Kong pursuant to the arrangement between mainland China and Hong Kong provided that such enterprises in Hong Kong are recognised by the tax authority of China as qualified for the relevant tax treaty. The qualification for the tax treaty is set out in the Notice of the State Administration of Taxation on Definition and Recognition of “Beneficiaries” under the Relevant Taxation Treaties (《國家稅務總局關於如何理解和認定稅收協定中「受益所有人」的通知》) and the Notice of State Administration of Taxation on Circulation of the Provisional Administrative Measures for Non-resident Individuals and Enterprises to Enjoy the Treatment Under Taxation Treaties (《關於印發〈非居民享受稅收協定待遇管理辦法(試行)〉的通知》).

### (2) Value Added Tax (the “VAT”)

According to 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 by the State Council and came into effect on 1 January 1994 and amended on 10 November 2008 and came in to effect on 1 January 2009 and the Detailed Rules for the Implementation of the Provisional Regulations on Value-added Tax of the PRC (Revised in 2011) (《中華人民共和國增值稅暫行條例實施細則(2011)年修訂》), which was promulgated by the Ministry of Finance and the SAT on 15 December 2008 and amended on 28 October 2011 and came into effect on 1 November 2011 (collectively, the “VAT Law”), all enterprises and individuals that engage in the sale of goods, the provision of processing, repair and replacement services, and the importation of goods within the territory of the PRC must pay value-added tax. Unless provided otherwise, the rate of value-added tax for general value-added tax payer is 17%. Further, according to Notice on Tax Policy Concerning Nationwide Implementation of VAT Pilot Program for Transport and Part of Modern Services Sectors (《關於在全國開展交通運輸業和部分現代服務業



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營業稅改征增值稅試點稅收政策的通知》) jointly issued by the Ministry of Finance and the State Administration of Taxation on 24 May 2013, starting from September 2013, the rate of value-added tax applying to the enterprise that engage in the modern services is 6%.

### (3) Export Tax Rebate

Notice of the Ministry of Finance and the State Administration of Taxation on Raising the Export Tax Rebate Rates for Certain Commodities (《財政部、國家稅務總局關於進一步提高部分商品出口退稅率的通知》) was promulgated on 3 June 2009 and came into effect on 1 June 2009. According to it, the export tax rebate rate for Tin Da is 15%.

### (4) Circular 7 and Circular 698

On 3 February 2015, the PRC State Administration of Taxation issued the Public Announcement on Several Issues Concerning Enterprise Income Tax for Indirect Transfer of Assets by Non-Resident Enterprises (《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 abolished certain provisions in the Notice on Strengthening the Administration of Enterprise Income Tax on Non-Resident Enterprises Equity Transfer Income (《關於加強非居民企業股權轉讓所得企業所得稅管理的通知》) (the “**Circular 698**”). Circular 7 provides comprehensive guidelines relating to, and also heightens 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, inter alia, that the PRC tax authorities are entitled to reclassify the nature of an indirect transfer of PRC Taxable Assets, when a non-resident enterprise transfer 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 purpose of avoiding PRC enterprise income taxes and without any other reasonable commercial purpose. On the other hand, such transfer shall be deemed to have been conducted with reasonable commercial purpose and exempt from tax in the PRC in the event that (1) 80% or above shareholding of the transferor and the transferee are mutually held by the same party; (2) the PRC tax burden of a future indirect transfer transaction that would occur after the existing transfer shall not be reduced as compared with that of the same or a similar transaction occurred in the absence of the existing indirect transfer; and (3) the consideration for such share transfer shall be paid in share(s) held by the transferee or any party controlled by the transferee. As a part of the Reorganisation, Ever Sound transferred all its share interest in Ever Smart to United Acme on 5 February 2015, and as consideration United Acme has allotted and issued one share to Mr. KW Ho, the shareholder of Ever Sound (“**Ever Smart Transfer**”).

As advised by our PRC Legal Advisers, as Ever Smart was indirectly holding 100% share interest of Tin Da, which is regarded as PRC Taxable Assets, through Ever Sky at the time of the Ever Smart Transfer, the Ever Smart Transfer should be regarded as indirect transfer of PRC Taxable Assets according to Circular 7 and Circular 698. However, due to the fact that (1) Ever Sound, as transferor, and United Acme, as transferee, are both wholly owned by the same party, Mr. KW Ho, at the time of Ever Smart Transfer; (2) the PRC tax

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## REGULATORY OVERVIEW

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burden of a future indirect transfer transaction that would occur after the Ever Smart Transfer shall not be reduced as compared with that of the same or a similar transaction occurred in the absence of the Ever Smart Transfer; and (3) the consideration for the Ever Smart Transfer was paid in one share being allotted and issued by United Acme, the Ever Smart Transfer satisfies the conditions specified above and shall be regarded as having reasonable commercial purpose and is accordingly exempt from tax in the PRC. Our PRC Legal Advisers have also confirmed with the State Administration of Taxation Dongguan Houjie Office (東莞市國家稅務局厚街分局) that the Ever Smart Transfer is exempt from tax in PRC.

Save for the Ever Smart Transfer, as advised by our PRC Legal Advisers, the Reorganisation has no other arrangements that involve the indirect transfer of PRC Taxable Assets conducted by non-resident enterprises as described in Circular 7 and Circular 698.

### 6. IMPORT AND EXPORT OF GOODS

#### (1) Foreign Trade Registration

The Foreign Trade Law of the PRC (《中華人民共和國對外貿易法》) (the “**Foreign Trade Law**”) was promulgated on 12 May 1994 and amended on 6 April 2004 to develop foreign trade such as the import and export of goods, technology and international service, and to maintain order in foreign trade and promote the advancement of PRC’s economy. The Foreign Trade Law and the Measures for the Archival Filing and Registration of Foreign Trade Operators (《對外貿易經營者備案登記辦法》) promulgated by the MOFCOM on 25 June 2004 requires enterprises engaging in import or export of goods or technology to register with the relevant authorities in charge of foreign trade under the State Council unless otherwise provided by other laws, administrative regulations or by the relevant authorities in charge of foreign trade under the State Council. The MOFCOM issued the Circular on Relevant Issues Concerning the Filing and Registration of the Right to Foreign Trade by Foreign-invested Enterprises (《關於外商投資企業外貿權備案登記有關問題的通知》) on 17 August 2004, which provides that the following two types of foreign-invested enterprises do not need to go through the formalities of filing and registration of foreign trade operators: (i) foreign-invested enterprises lawfully established before 1 July 2004 that have not applied for changing their scope of business to add other import/export business, and (ii) foreign-invested enterprises lawfully established after 1 July 2004 that undertake import/export of self-use or self-produced goods and their own technologies.

#### (2) Customs

The Customs Law of the PRC (《中華人民共和國海關法》) (the “**Customs Law**”) was promulgated on 22 January 1987 and amended on 8 July 2000, 9 June 2013 and 28 December 2013 by the Standing Committee of the NPC to maintain state sovereignty and interests, strengthen supervision and control by Customs, promote exchanges with foreign countries in economic affairs, trade, science, technology and culture, and safeguard socialist modernization. This law governs the goods importation and exportation in the aspects of customs duty, customs clearance, customs inspection, anti-smuggling, etc., and also specifies the liabilities for violations.

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Pursuant to the Regulations of the People’s Republic of China on Import and Export Duties (《中華人民共和國進出口關稅條例》) promulgated by the State Council on 23 November, 2003 and came into effect on 1 January 2004, and further amended on 8 January 2011, 7 December 2013 and 8 November 2013 respectively, the Customs may levy import and export duties in accordance with the provisions of this set of regulations on goods that are allowed to be imported into or exported from PRC and on articles entering into PRC, unless otherwise specified by laws and administrative regulations. In addition, the consignee of imported goods, consignor of export goods, and owner of articles entering PRC are parties liable for paying customs duties.

### (3) Administration of the Import and Export of Goods

The Regulation of the PRC on the Administration of the Import and Export of Goods (《中華人民共和國貨物進出口管理條例》) (the “**Import and Export Regulation**”) was promulgated by the State Council on 10 December 2001 and came into effect on 1 January 2002 and amended on 23 September 2012. According to Import and Export Regulation, the PRC government can prohibit and restrict the import and export of certain goods under the circumstances as provided by the laws, under which circumstances no goods can be imported and exported. The goods under national restriction on import quantity shall be subject to the quota administration. The goods under other import restriction shall be subject to the permit administration. Goods not restricted or under quota administration will not be subject to such administration requirements mentioned above.

### RELEVANT LAWS AND REGULATIONS IN AUSTRALIA, NEW ZEALAND, CHILE, UNITED ARAB EMIRATES, UK, RUSSIA, THE UNITED STATES, BELGIUM AND EU

During the Track Record Period, almost all of our footwear was exported overseas. Our Group’s total sales with shipment destinations to Australia, United Kingdom, Chile, New Zealand, United Arab Emirates, Russia, the United States and Belgium represented approximately 29.0%, 3.5%, 5.0%, 3.2%, 2.9%, 31.3%, 3.6% and 1.3% of the total sales of our Group in the financial year ended 31 December 2013, approximately 39.6%, 14.4%, 6.3%, 5.7%, 5.4%, 0.5%, 4.6% and 3.9% of the total sales of our Group in the financial year ended 31 December 2014 and approximately 36.5%, 28.1%, 5.8%, 3.5%, 2.5%, nil, 3.2% and 3.9% of the total sales of our Group in the financial year ended 31 December 2015, respectively. The following sets forth certain legal and regulatory requirements in the aforesaid jurisdictions that may relate to the export and sale of our footwear to these jurisdictions.

#### A. Australia

##### 1. *Quota and anti-dumping laws*

Our Group’s footwear is subject to Australia’s anti-dumping laws, which are set out in the Customs Act 1901 (Cth). The laws apply to any goods that have been exported to Australia where (i) the amount of the export price of the goods is less than the amount of the normal value of those goods; and (ii) because of that, material injury



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to an Australian industry producing like goods has been or is being caused or is threatened, or the establishment of an Australian industry producing like goods has been or may be materially hindered.

Where the applicable Australian Minister is satisfied that dumping has occurred, the Minister may impose a duty on the dumped goods (which may apply retrospectively).

### **2. *Customs and tariffs***

The various levy and tariff systems in Australia are governed by the Customs Act 1901 (Cth), Customs Tariff Act 1995 (Cth) and a range of other acts and regulations. The Customs Tariff Act imposes customs duty on goods imported into Australia.

The Customs Tariff Act generally applies to importers, who can be liable for penalties if they pay the incorrect tariff.

### **3. *Product liability and safety***

#### *Customer guarantees*

The Competition and Consumer Act (the “CCA”) regulates product safety. Under the CCA, end purchasers of products have a range of remedies against both the retailer and the manufacturer of the product, where a product does not comply with the consumer guarantees set out in the CCA. The consumer guarantees apply to goods acquired for personal, domestic or household use, or are valued at under \$40,000; and footwear would fall within this definition. The consumer guarantees that apply to a manufacturer include (i) the goods will be of an acceptable quality; (ii) the goods’ description will be accurate; and (iii) the manufacturer will comply with the any warranty it supplies with the product.

It is arguable whether a company that outsources the manufacture of the products to third parties could be deemed to be the manufacturer on the basis that it assembled or processed the goods. However, a claim being made against our Company by a customer in Australia is highly unlikely.

#### *Defective products*

The CCA also states that manufacturers are liable for damages where a person suffers injury, loss or damage as a result of a safety defect (where the defect was present at the time of manufacture). Whilst it is arguable that such company could be deemed to be the manufacturer for the purposes of the CCA, it also seems practically unlikely that a claim would be made against our Company.

### **4. *Intellectual property***

Key acts relevant to the distribution of footwear include, among others, the Trade Marks Act 1995 (Cth), the Patents Act 1990 (Cth) and the Designs Act 2001 (Cth).

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The Trade Marks Act sets out Australia’s system for the registration of brand names and logos, and provides protections to holders of valid registered trademarks. The Designs Act allows for the registration of designs and is intended to protect designs with an industrial or commercial use. Once registered, the owner has an exclusive right to commercially exploit the design. The aforesaid legislations comprise both civil and criminal penalties, depending on the severity of the illegal action.

### B. New Zealand

#### 1. *Quotas and anti-dumping and countervailing measures*

Our Group’s footwear is not subject to any quotas when imported into New Zealand.

No categories of footwear are currently the subject of any anti-dumping duty in New Zealand.

#### 2. *Customs tariffs on imports*

Our Group’s footwear imported to New Zealand is subject to customs tariffs under the Tariff Act 1988, the Customs and Excise Act 1996 and the Working Tariff Document of New Zealand. The usual customs tariff rate on new footwear is 10% of the customs value of the footwear.

However, New Zealand is party to a Closer Economic Partnership Agreement with Hong Kong, a Free Trade Agreement with the Government of the PRC, and the Agreement establishing the ASEAN-Australia-New Zealand Free Trade Area. Each of these agreements provides for reduced customs tariff rates to apply to products imported from Hong Kong, China, and Indonesia (as applicable), with many tariffs (including those relating to footwear) being phased out over time.

The following maximum customs tariffs rates apply until the stated cessation dates:

| Country products are imported from | Maximum tariff | Date on which a 0% tariff applied/ will apply |
|------------------------------------|----------------|---|
| Hong Kong and China                | 2.1%           | 1 January 2016                                |
| Indonesia                          | 10%            | 1 January 2020                                |

The actual customs tariff applied will depend on the particular product imported and whether the product qualifies under the relevant agreement as originating in a particular country.

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In addition, Goods and Services Tax (“GST”) of 15% and an import entry transaction fee (presently NZ\$46.89 (including GST)), is payable on every import entry clearance and import declaration for goods imported into New Zealand will be imposed in accordance with the Goods and Services Tax Act 1994.

Our customers, as the importer of our products, are responsible for paying the above tariffs, fees, and tax in relation to the sales of our products to New Zealand.

### **3. *Product liability and safety***

At present, there are no specific product standard requirements applicable to the import of footwear into New Zealand.

The quality control of footwear is governed by general law. Our Company may be subject to liability for losses or injuries caused by defective products or losses in connection with our products under New Zealand law if jurisdiction can be established. Claims may be made based on breach of contract or the tort of negligence, or under specific statutory provisions.

There is also a comprehensive statutory accident compensation scheme under the Accident Compensation Act 2001 which provides New Zealand residents with monetary compensation for “personal injury”.

The Consumer Guarantees Act 1993 provides a set of consumer guarantees (including as to acceptable quality) which apply when a consumer acquires goods from a supplier which are ordinarily for personal, domestic, or household use or consumption. The Manufacturers may be subject to civil claims under this Act.

The Sale of Goods Act 1908 implies certain warranties and conditions such as price, title, fitness for purpose, and quality, into contracts for the supply of goods. A claim could be made by a party to a contract under which our Company has supplied our products.

In addition, footwear products sold in New Zealand must comply with product labelling requirements as to the country of origin of the footwear under the Consumer Information Standard (Country of Origin (Clothing and Footwear) Labelling) Regulations 1992 and the Fair Trading Act 1986. Footwear is not required to carry labelling as to care and cleaning, but each individual item offered for sale must carry a permanent label stating the footwear’s country of origin. Footwear which is falsely labelled as to country of origin will fall into the category of prohibited imports into New Zealand.

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### **4. *Intellectual property***

The Trade Marks Act 2002 establishes a system for the registration of trade marks, and sets out the protection available to trade mark owners. Registered trademarks are infringed if an unauthorised party uses an identical or confusingly similar trade mark in relation to the same or similar goods and services for which the trade mark is registered.

The Designs Act 1953 establishes a system for the registration of designs, and governs registered designs in New Zealand. Design protection can be sought for novel features of shape, configuration, pattern, or ornament applied to an article by any industrial process or means, which appeal to and are judged solely by the eye.

## **C. Chile**

### **1. *Import customs tariff and taxes***

The products imported to Chile are subject to customs tariff in accordance with the Chilean Customs Tariff Act. General tariff is 6% of the price of imported products. Chile has entered into several free trade agreements that reduce or avoids this tariff. As a consequence of these agreements, the effective (average) tariff is below 2%. Chile has entered into Free Trade Agreements with China and Hong Kong which allow import of products including footwear without applying any tariff. Customs tariffs, if any, are payable by the importing company but not our Company.

19% VAT is applicable to all importation of products. VAT is payable by the importer upon clearance of the goods and is credited against VAT charged when invoicing (selling) the products.

### **2. *Quota and trade restrictions***

There are no quotas or restrictive regulation affecting the importation of footwear to Chile.

### **3. *Product standard requirements***

There is no specific product standard requirement applicable to import of footwear to Chile.

The quality control of footwear products is governed by general rules of private law, such as the rules of the Chilean Civil Code, specifically regarding contractual and non-contractual liability (tort) that enable consumers to seek indemnifications in case of breach, partial or late fulfillment malice or negligence.

Product liability regulations are also applicable in case of defective products under the Consumer Protection Act.

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The Chilean Criminal Code also contains several crimes that must be taken into consideration in connection with the importation of goods. Article 467 of the Criminal Code relates to sanction fraud involving the quantity or quality of products sold. Article 285 punishes those who fraudulently alter the price of goods or any other issue that may be subject of contracting. Article 190 of the Criminal Code punishes those who add to manufactured products, the trade name of a manufacturer different than the real manufacturer of such products, or the trade name of a factory other than the real manufacturer. In all of these cases, imprisonment sanction in addition to other penalties and fines may be imposed.

### ***4. Anti-dumping regulation***

Act No. 18,525 relates to the importation of products to Chile. Article 10 states that “antidumping and compensatory custom duties may be imposed to the importation of those products that creates, actual or imminent, significant damage to the national production or when such products are imported at low prices due to artificial effects in their respective markets”. There are no records of applications of antidumping and compensatory custom duties to footwear imported from China and Hong Kong.

### ***5. Industrial property regulation***

Products imported to Chile are submitted to the regulations of Act No. 19,039 of Industrial (Intellectual) Property Rights and its rulings that govern registration and protection of trade patents, trademarks, designs, utility models and trade secrets. The breach of these regulations could generate civil liability and also criminal prosecution in certain cases.

Victims of Industrial (Intellectual) Property rights infringement may seek injunction relief and claim damages.

## **D. United Arab Emirates**

### ***1. Anti-dumping laws***

The United Arab Emirates has not taken any anti-dumping laws, countervailing or safeguard actions since becoming a member of WTO. It has no laws or regulations on contingency trade remedies. However, the United Arab Emirates has adopted the provisions on anti-dumping law, countervailing and safeguard measures contained in The Cooperation Council for the Arab States of the Gulf (“GCC”) treaty.

### ***2. Laws relating to export/import customs and tariffs***

As for the import of our Group’s footwear to the United Arab Emirates, there are customs regulations that apply to it. Customs rules and regulations will vary according to the origin and the final destination of the products.

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The United Arab Emirates applies the “Common Customs Law of the GCC States” which is applicable in all GCC countries, wherein all commodities crossing the customs line, at importation or exportation, are subject to the provisions of this law. The commodities imported into the country are subject to the custom duties specified in the Customs Tariff issued pursuant to the Common Customs Law. There are also United Arab Emirates laws and regulations regarding customs.

### **3. *Product liability***

There was an enactment of laws in 2006, i.e. Federal Consumer Protection Department, which provided adversely affected consumers with greater access to support and remedies. The said laws elaborate the basis for consumer protection in the United Arab Emirates and further expand the consumer law provisions and describe the obligations placed upon suppliers of goods. As per prevailing laws, the provider shall be liable for any and all damages resulting from using or consuming the commodity.

The consumer is also entitled to complain before the Consumer Rights Department for any defect found in a product, claiming for compensation for the same. The classification of the legal action will depend upon the type of complaint of incident filed by that party.

### **4. *Intellectual property laws***

The United Arab Emirates government has issued two important laws related to the intellectual property field, i.e. Federal Law No. 37 of 1992 on Trademarks amended by Law No. 19 of 2000 and Law No. 8 of 2002 (1992) and Federal Law No. 40 of 1992 on the Protection of Intellectual Works and copyright (1992). Apart from the said laws, United Arab Emirates is a signatory to all major intellectual property conventions.

## **E. UK**

### **1. *Quota and anti-dumping laws***

Our Group’s footwear is not subject to any anti-dumping duties upon importation into the UK.

### **2. *Laws relating to export/import customs and tariffs***

Taking into account that the UK is part of the EU as an EU member state, the EU legislation regarding import and export which is directly applicable in all EU member states is legally binding for the UK. Depending on the scope of discretionary powers given to EU member states in the EU legislation, the UK may have further implemented and/or supplemented the EU legislation by enacting national legislation.

Our Group’s footwear imported to the UK is subject to customs tariff based on the price of the imported products in accordance with the Council Regulation (EEC) No. 2658/87. Our customers are responsible to pay the import customs tariff.

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Currently no tariff quotas apply for the import of footwear products.

### 3. *Product liability and safety*

Considering the facts that: (i) our Group is not the manufacturer of the products; (ii) our Group’s name or trademark is not applied to the products; and (iii) our Group is not the importer of the products into the EU, under English law, a product liability claim by a customer who has suffered loss can be based on one, or a combination of the grounds of contract and tort (i.e. negligence).

#### (i) Contract

There is no direct contractual relationship between our Group and a customer who has purchased a product, no claim in contract could be brought by a customer against our Group directly in relation to a defective product. However, if a customer commenced a claim against the retailer that sold him or her a defective product, it may be possible for that retailer to claim against, and seek to pass up any liability, to the relevant entities in the contractual supply chain, including our Group.

However, the passing of any liability in this respect will depend on (among other things) the existence of contracts between such entities and the precise terms of each contractual relationship involved.

#### (ii) Tort

There is an established duty of care between manufacturers of products and customers under English law, which can provide a direct link between the two for the purpose of a negligence claim. At least in principle, product liability claims in negligence can be brought against designers of defective products, although such claims would not be straightforward and are relatively rare in practice.

#### *Regulatory regime*

In addition to the above, there is a comprehensive product safety/regulatory regime in place in the UK. The General Product Safety Regulations 2005 (which implement the European Product Safety Directive 2001/95/EC into English law) impose a duty on producers and distributors (among other things): (a) to place only safe consumer products on the market; (b) to take appropriate corrective action where necessary; and (c) to notify the relevant authorities where an unsafe product has been marketed.

“Producers” are defined in this regulation as including both manufacturers and “other professionals in the supply chain in so far as they may affect the safety properties of a product”. In this respect, our Group may be considered to be a “producer” if its activities (including, for example, as to design, production

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and quality control) affect the safety properties of the footwear products. Criminal sanctions can be imposed on producers and distributors of products who fail to comply with their duties under the product safety regime.

### 4. *Intellectual property*

#### *Design rights*

UK national design law is set out in the Registered Designs Act 1949 (for registered designs) and Copyright, Designs and Patents Act 1988 (for unregistered design rights). Community design law (registered and unregistered Community designs) are covered by Council Regulation (EC) No 6/2002 of 12 December 2001 on Community designs.

In the UK, designs can be protected by registered and unregistered design rights. Registered design rights must be applied for and granted, whereas unregistered rights arise automatically.

#### *Trademark*

UK national trade mark law is governed by the Trade Marks Act 1994. Community Trade Marks, which have effect in the UK as well as the other member states of the EU, are regulated by Council Regulation (EC) number 207/2009 of 26 February 2009 on the Community trade mark. A trade mark can be protected by registering the mark.

## F. RUSSIA

### 1. **Product liability and safety**

#### *(i) Injury caused by a defective product*

According to the Federal Law on Customers’ Rights Protection, dated as of 7 February 1992, No 2300-1 (the “**CRP**”), a person who claims to be injured by a defective product can choose to claim damages from either its manufacturer or seller. Therefore, if a company is not the seller or the manufacturer, it cannot be held liable for such damage.

Taking into account that our Group is not a manufacturer of the product, our Group shall not be the subject of the liability in a case of suffered loss or damage by using a defective product.

#### *(ii) Liability in case of non-compliance*

There are Technical Regulations that establish requirements for textile/clothing, footwear, and leather products. If the Russian governmental authorities responsible for the control of product quality and safety (the “**Russian Governmental Authorities**”) discover that a product violates mandatory standards



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and technical regulations, rendering it a potential risk to consumers, then the manufacturer or the representative will be notified, and subsequently the manufacturer must develop and implement a plan of action to prevent or limit a potential damage. If mandatory standards and technical regulations are found to have been violated, the Russian Governmental Authorities may have rights to recall the product from the market, at the manufacturer’s expense. In addition, the Russian Governmental Authorities have rights to impose an administrative liability.

*(iii) Liability under customers’ rights protection*

The requirements regarding product quality is stipulated in the CRP. If the delivered goods do not correspond with the quality requirements, consumers may, at their own discretion, return the goods to the seller and demand on paying back of the purchase price, or to ask for a replacement of the delivered goods for goods of the announced quality or an adequate purchase price reduction.

According to the Article 14 of the CRP, an injured person or legal entity is entitled to damages caused by product defects whether or not he/it has entered into a contract with the manufacturer or the seller. As such, claims may be initiated not only by the buyers of the product, but also by a third party. Hence, the liability for damage shall not be limited by a contract. Pursuant to Article 15 of the CRP, the claimant is also entitled to claim damages for distress or mental anguish, and damages for material losses, unless the damage is suffered as a result of *force majeure* or if the customer failed to comply with the usage requirements for the products.

As our Group is not the seller or the manufacturer, we will not be held liable for such damage. All responsibility for non-compliance with requirements of technical regulations will be placed on the Russian company that imports the product or the legal person performing functions of the manufacturer.

*(iv) Criminal liability of non-compliance of regulations*

Russian laws do not provide any criminal liability for the non-compliance with legislation governing the aspects of quality of imported products.

## **2. Anti-dumping regulation**

With the formation of the EurAsEC Customs Union between the Republic of Belarus, Russia, and the Republic of Kazakhstan, the main anti-dumping regulation powers transferred from the national level to the Economic Union level, represented by the Eurasian Economic Commission (the “EEC”) – permanent regulatory body of the Eurasian Economic Union.

As of June 2015, there are no any published decisions of the Board of EEC with respect to introduction of anti-dumping duties or initiated anti-dumping investigation with respect of footwear products related to the PRC.

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Russia's joining the WTO has also resulted in the Agreement on the Implementation of Article VI of the General Agreement on Tariffs and Trade 1994 (GATT Anti-dumping Code), concluded in Marrakesh on April 15, 1994, becoming part of the GATT legal system.

### 3. Intellectual property laws

Russian legislation regarding the intellectual property law provides the rules for securing and enforcing legal rights, including but not limited to inventions, designs, and artistic works regardless of whether they are a local or international business. Any foreign legal entity or a private individual may seek protection for its/his/her intellectual property rights on the territory of Russia provided that such person has grounds to seek the protection in Russia.

Russian intellectual property legislation consists for the most part of the Russian Civil Code, specifically Part IV, enforced by the Federal Law No. 230-FZ, dated December 18, 2006. In addition, Russia is a signatory to all major international treaties on intellectual property rights.

## G. United States

Our Group's footwear products are subject to regulation in the United States with respect to: (1) safety and labeling, (2) payment of customs duties and proper declaration of country of origin, (3) product liability and (4) intellectual property protection. These areas of U.S. regulation are summarised below. Our Group has responsibility for compliance with these requirements in that it has responsibility for the design of the footwear, production management and logistics for shipment of the footwear to the United States.

### 1. *U.S. Consumer Product Safety Regulations*

The U.S. Consumer Product Safety Commission (the "CPSC") regulates substances used in the manufacture of children's footwear. This includes limits of parts per million of lead. The Consumer Product Safety Improvement Act of 2008 requires certification of compliance with CPSC standards for children's footwear. Other U.S. laws require labeling concerning the presence of specified hazardous substances, leather and imitation leather and fur. The Federal Trade Commission (the "FTC") also restricts the use of labeling or advertising considered misleading to consumers, and the FTC requires specific labeling concerning wool content in slippers. U.S. law also prohibits the use of dog and cat fur, prohibits the use of specific toxic substances and requires registration of antimicrobial materials used in products. Certain U.S. states impose additional restrictions and labeling requirements on products sold within their territory.

The above regulations could affect the distribution of our Group's footwear in the United States and because these compliance obligations can extend to foreign companies that place goods into U.S. commerce, our Group could be held responsible for compliance with these regulations even though it does not take legal title to the products.

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### **2. *Product liability laws***

U.S. product liability law entitles parties injured in their persons or their property by defective products to bring claims to recover damages. Liability in such cases arises when the product is found to have been in a defective condition unreasonably dangerous to the user or consumer. Defects can be manufacturing defects, design defects or defects due to a failure to warn. There are various voluntary industry standards for footwear in the United States that address such things as design safety of high heel shoes and performance of toe caps. Other design elements that could be scrutinized in a U.S. product liability case could include irritant or allergenic materials, flammability characteristics, durability of materials used, and decorative or other pieces that could be removed and ingested by children.

In many U.S. jurisdictions product liability can be imposed on defendants who are engaged in the business of “distributing” the products even if they are not a manufacturer or seller. Because of our Group’s responsibility for design, production management and logistics, it is possible that our Group could be made a party to U.S. product liability litigation concerning our products.

### **3. *Customs regulations***

U.S. Customs law imposes duties on footwear of the types that our Group supplies for the U.S. market. This footwear is in headings 6401 to 6405 of the Harmonized Tariff Schedule of the United States. Most categories of footwear within these headings has a rate of duty under 10%, but some types are subject to duty of 37.5% or 48%. The United States has Free Trade Agreements in force with certain Asian countries (Korea and Singapore) as well as Australia, Israel, Morocco, Jordan, Bahrain and various countries in the Western Hemisphere. U.S. law requires that our Group’s footwear be properly marked for country of origin and that applicable U.S. duty be paid on entry. Although our Group does not act as importer of record into the United States and does not take title to the goods we supply to the United States, U.S. law does provide in some circumstances for customs compliance responsibilities and liability for errors to attach to other parties in the supply chain, particularly when an importer of record acts on its behalf or the foreign party acts in concert with the importer. At this time no U.S. antidumping or countervailing duties are in force on footwear in headings 6401 to 6405, and no quota currently applies. There was some quota in force for certain footwear in headings 6401 to 6405 within the past five years. If there were any errors concerning goods subject to quota within the past five years, a claim could theoretically still be brought under the applicable statute of limitations.

### **4. *Intellectual property rules***

U.S. design patents, trademark and trade dress protection and copyright protection is available in specific situations for apparel, including footwear. General selections of color and style are not typically protected, but distinctive design elements associated within particular manufacturers, and special logos, symbols, text, images, tags, ornaments, stitching and holes can be protected by one or more of these intellectual property laws. Parties whose intellectual property rights are infringed can recover

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substantial damages, including lost profits, disgorgement of the infringing party’s profits, attorneys’ fees and, in copyright cases, statutory damages. In addition, infringing products can be blocked from entry into the United States under section 337 of the Tariff Act of 1930. If a U.S. intellectual property holder found that our Group’s footwear had distinctive design elements identical or similar to its own design, it could bring a claim against the parties marketing our Group’s footwear in the United States, and because our Group may be responsible for the footwear design as well as production management and logistics, it is possible that our Group could become a party to such litigation.

### H. BELGIUM

#### 1. *Anti-dumping laws*

There are currently no EU anti-dumping measures in force against footwear products originating from China. In addition, as the EU is operating as a single market, there are no such Belgium-specific measures in connection with anti-dumping.

#### 2. *Product liability laws*

Our Group’s footwear is subject to the Act of 25 February 1991 concerning Liability for Defective Products (the “**Product Liability Act**”), as they comply with the definition of “product” set forth in the Product Liability Act. This Act is implementing the European Council Directive 85/374/EEC of 25 July 1985 on the approximation of the European laws, regulations and administrative provisions of the EU Member States concerning Liability for Defective Products (the “**Product Liability Directive**”) and the Directive 2001/95/EC of the European Parliament and of the Council of 3 December 2001 on General Product Safety.

Under the Product Liability Act, the producer shall be liable for damage caused by a defect in its product. In accordance with Articles 3 and 4 of the Act, three categories of “producer” can be distinguished, namely the actual producer, the apparent producer and the presumed producer.

Our Company cannot be held liable under product liability law in Belgium. Our Company does not fall under the categories of “producer” as set forth in Article 3 of the Product Liability Act, since (i) our Company cannot be regarded as the actual producer of the defective product, seeing that it is not the manufacturer of (a component part of) the finished footwear products, neither the manufacturer or producer of a raw material (used in the manufacture of the footwear products); and (ii) our Company cannot be regarded as the apparent producer of the defective product, seeing that the footwear products are not marketed under our own fashion brands.

Our Company does not face any cascade liability (notwithstanding the liability of the actual or apparent producer) as set forth in Article 4 of the Product Liability Act, that is, as a presumed producer. In accordance with this Article, the supplier of a

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product, being imported in the EU and causing damage, is deemed to be the producer of the defective product if the EU-importer of the product cannot be identified. In this event, the supplier can be held liable, even if the name of the (actual or apparent) producer is indicated on the product. For consumer protection reasons, it was deemed necessary to enable the injured person to contact a “producer” established in the EU (as, in such a scenario, the actual or apparent producer will likely be established outside the EU).

The supplier can nevertheless escape liability by informing the injured person, within a reasonable period of time, of the identity of the importer or of the person who supplied him with the defective product. Once the importer is known, the supplier, or the supplier’s supplier, can no longer be held liable on the basis of the Product Liability Act. The Product Liability Act, nor the Product Liability Directive, provided for a definition of “supplier”. Taking into account the underlying purpose of this Article (to enable the injured person to contact a “producer” established in the EU), the notion “supplier” evidently only refers to suppliers established in the EU and does not extend to a person or entity in this capacity established outside the EU. As a result, our Company cannot be regarded as the presumed producer of the defective product.

### I. EU

The laws of the EU are applicable to the supply of footwear by our Group into the EU. While EU regulations are binding legislative acts directly applicable in the EU member states (the “**EU Member States**”), an EU directive must be implemented in the national laws in order to become binding in EU Member States.

Subject to compliance with the EU regulations and directives (to the extent implemented in the EU Member States) described in more detail hereafter, the supply of footwear to the EU Member States does by itself not constitute any breach or violation of applicable EU laws.

#### *1. Product liability and safety*

In the EU, product liability is governed by the Product Liability Directive. The Product Liability Directive addresses the civil liability of a producer for damage caused by a defect in its product.

A producer under Article 3 is the manufacturer of a finished product and it presents itself as producer by putting its name, trade mark or other distinguished feature on the product. Injured persons may seek compensation from the producer with regard to damage caused by death or personal injuries, and damage to any item of property intended for private use or consumption.

The Regulation (EU) No 1007/2011 of the European Parliament and of the Council of 27 September 2011 on textile fibre names and related labelling and marking of the fibre composition of textile products (Textile Regulation) lays down provisions

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relating to textile fibre names with regard to their definition and use when indicating the fibre composition of textile products, the labelling of textile products containing non-textile parts of animal origin, and methods of analysis to check information indicated on labels or markings. The Regulation is binding in its entirety and directly applicable throughout the EU. As some of the footwear distributed by our Group contain textile fibres the aforementioned Regulation will be applicable to the supply of products by our Group to the EU Member States.

The Directive 2001/95/EC on general product safety (“**General Product Safety Directive**”) obliges producers to place only safe products on the market under Article 3. In addition, producers must provide consumers with the necessary information in order to assess a product’s inherent threat, take the necessary measures to avoid such threats (e.g. product monitoring, warnings, recalls) and inform the competent national authorities about potential risks under Article 5. The Directive applies in a complementary way to sector-specific and product-specific product safety legislation.

A product is deemed safe once it conforms to the safety provisions provided in European legislation, or, in the absence of such rules, if it complies with the specific national regulations of the EU Member State in which it is being marketed or sold. The competent national authorities may impose penalties for infringements of the national provisions adopted pursuant to the Directive.

### **2. Consumer protection**

The purpose of the Directive 2011/83/EU of the European Parliament and of the Council of 25 October 2011 on consumer rights (“**Consumer Rights Directive**”) is to achieve a high level of consumer protection across the EU. The directive, apart from some exceptions such as financial services and insurance, covers contracts between sellers and consumers on the sale of goods, and services.

Besides the Consumer Rights Directive, the principal directives relevant for consumer protection are: Directive 1999/44/EC of the European Parliament and of the Council of 25 May 1999 on certain aspects of the sale of consumer goods and associated guarantees (i.e. the Directive on Consumer Sales and Guarantees), Council Directive 93/13/EEC of 5 April 1993 on unfair terms in consumer contracts (i.e. the Directive on Unfair Contract Terms) and Directive 2005/29/EC of the European Parliament and of the Council of 11 May 2005 concerning unfair business-to-consumer commercial practices in the internal market (i.e. the Unfair Commercial Practices Directive).

### **3. Intellectual property**

With respect to the European legal framework on the protection of intellectual property, the following areas have to be distinguished: (i) patents and utility models, (ii) know-how and other technical intellectual property rights, (iii) copyright, (iv) design rights, and (v) trademarks.



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## REGULATORY OVERVIEW

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Compliance with this legal framework has two sides for the company. On the one hand, the company needs to make sure that it does not infringe upon intellectual property rights held by third parties. An infringement can entail administrative fines, sanctions under penal law for the individuals involved and measures under civil procedure law as well as competition law against the company, including foreclosure. On the other hand, the company can seek protection of its own intellectual property under this legislation.

Design rights are governed by the Council Regulation (EC) No 6/2002 of 12 December 2001 on Community designs ("**Community Design Regulation**") which came into force on 6 March 2002. Under this Regulation protection for designs in all 27 EU Member States can be obtained simultaneously at little cost. Apart from this regulation, namely the Commission Regulation (EC) No 2245/2002 of 21 October 2002 implementing Council Regulation (EC) No 6/2002 on Community designs and the Directive 98/71/EC of the European Parliament and of the Council of 13 October 1998 on the legal protection of designs need to be taken into account within the EU with regard to this topic.

Trademark regulation is the subject of the Council Regulation (EC) No. 207/2009 of 26 February 2009 on the Community trade mark ("**CTR**"). The Office for Harmonization in the Internal Market (OHIM) started to operate and accept Community trademark applications on 1 April 1996. With this system it has since been possible to obtain protection for trademarks in all 27 EU Member States by filing only one application. National trademarks still exist in parallel.

### **4. *Customs duties/tariff***

In principle, customs duties are imposed on goods imported into the EU from a foreign country. The EU comprises a customs unit with a common customs tariff. Therefore, the same common customs tariff is applicable on importations irrespective of the EU Member States where customs clearance is actually conducted. The common customs tariff provides for a classification of the goods, which determines the applicable tariff rate.

### **5. *Anti-dumping/anti-subsidy***

According to regulations of the European Council (No. 1225/2009 of 30 November 2009 and No. 597/2009 of 11 June 2009), importations into the EU may be subject to an additional anti-dumping or anti-subsidy duty imposed by the European Commission. The European Commission basically determines within an investigation whether a product is sold within the EU at less than its market value, i.e. dumped, or which product benefits from subsidies provided through foreign government programs and whether its release for the free circulation in the EU could, therefore, pose a threat to or harm the European industry. The European Commission initiates such investigation upon a complaint or on its own discretion.

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## REGULATORY OVERVIEW

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Depending on the findings, or even in the course of an ongoing investigation, the European Commission may temporarily or permanently impose additional duties on a product. Alternatively, the European Commission may accept certain offers submitted by the concerned parties to revise their prices or may accept offers submitted by the country of origin to reduce the respective subsidy, in order to eliminate the threat to the European industry. The European Commission is not obliged to accept such an offer and may still impose additional duties if the agreed conditions are not met or if a circumvention of anti-dumping or anti-subsidy measures in force is taking place.

### 6. *VAT/Import VAT*

The supply of goods and services rendered within the EU are generally subject to VAT. Additionally, the importation of goods into the EU is generally subject to import value added tax ("**Import VAT**"). There is a common harmonized Import VAT and VAT system within the EU even though the tax rates are determined individually by each EU Member State.

Import VAT is generally due upon the importation of goods into the EU when the goods are customs cleared. The actual Import VAT rate, therefore, depends on the circumstances and the place of importation within the EU where customs clearance is conducted. If certain requirements are met, Import VAT may be refundable for the supplier of goods upon application.

VAT is generally due upon the supply of goods or the rendering of services within the EU. The actual VAT rate depends on the circumstances and the place of supply or service within the EU.

### 7. *Excise duties*

Within the EU, additional taxes may apply to certain goods.

### 8. *Import restrictions*

According to the regulations of the EU with respect to importations of goods from foreign countries, any person, group, organization, country or certain goods may be subject to particular measures, such as the complete ban of importation, importation quotas or the requirement for an importation clearance issued by a competent authority of the respective EU Member State.

## IMPACT OF INTERNATIONAL SANCTIONS LAWS

During the Track Record Period and up to the Latest Practicable Date, we had sold our footwear to customers in three Sanctioned Countries: Russia, Iraq and Venezuela. In light of this, we have appointed DLA Piper Hong Kong to determine whether our sale of footwear to the identified Sanctioned Countries during the Track Record Period and up to the Latest Practicable Date violate International Sanctions Laws. As advised by DLA Piper Hong Kong, our legal advisers as to International Sanctions Laws, our Group's historical sales in the identified Sanctioned Countries during the Track Record Period and up to the Latest



## REGULATORY OVERVIEW

Practicable Date are not sanctioned activities under International Sanctions laws and do not implicate the relevant sanctions laws on our Group, or any, person or entity, including our Group’s investors, the Stock Exchange, the HKSCC and the HKSCC Nominees. Please refer to the section headed “Business – Business activities in Sanctioned Countries” in this [REDACTED] for further details.

### IMPACT OF ANTI-DUMPING MEASURES ON OUR GROUP

Our Group’s products are not subject to anti-dumping duties or measures (as the case may be) imposed in New Zealand, Chile, Russia, Indonesia, Belgium, the UK, the EU and the US.

Our Directors note that our products exported to Australia, Malaysia and United Arab Emirates during the Track Record Period could be subject to anti-dumping laws and our Directors confirm that our products had never been held to have been dumped into these countries. The following table sets forth our revenue derived from the shipment destinations to Australia, Malaysia and United Arab Emirates during the Track Record Period:

|                         | For the year<br>ended 31 December<br>2013                      |      | For the year<br>ended 31 December<br>2014                      |      | For the year<br>ended 31 December<br>2015                      |      |
|-------------------------|--|------|--|------|--|------|
|                         | <i>Approximate<br/>% to our<br/>total<br/>HK\$’000 revenue</i> |      | <i>Approximate<br/>% to our<br/>total<br/>HK\$’000 revenue</i> |      | <i>Approximate<br/>% to our<br/>total<br/>HK\$’000 revenue</i> |      |
| Australia               | 88,141   | 29.0 | 96,641   | 39.6 | 110,345  | 36.5 |
| Malaysia                | 9,931  | 3.3  | 5,587  | 2.3  | 6,560  | 2.2  |
| United Arab<br>Emirates | 8,928  | 2.9  | 13,180   | 5.4  | 7,582  | 2.5  |

In the event that our products were held to be dumped into any or all of these countries by their regulatory authorities, the revenue contribution from the sale of our products to these countries would be exposed to anti-dumping risks.

Notwithstanding the aforesaid, our Directors confirm that we had not been subject to any anti-dumping measure, which excludes imported footwear or impose payment of anti-dumping duties in the major countries to which our Group’s footwear was exported.

If our Group is subject to any anti-dumping measures or anti-dumping duties in any of the countries where our Group’s products are or will be exported in the future, our Group’s sales may drop substantially and hence our financial condition, results of operations and prospects may be adversely affected. Please refer to the section headed “Risk factors – B. Risks relating to our industry – 2. Our sales may fluctuate and may be restricted by anti-dumping measure or the imposition of tighter import and export controls by the governments of our export destinations abroad” in this [REDACTED] for further details.

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## **HISTORY, REORGANISATION AND CORPORATE STRUCTURE**

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### **BUSINESS AND CORPORATE DEVELOPMENT**

#### **Overview**

Our Company was incorporated in the Cayman Islands under the Companies Law on 6 February 2015 in preparation for the [REDACTED] and is the holding company of our Group.

Over the past years, the shareholdings of some of our subsidiaries have undergone changes. As at the Latest Practicable Date, our Group mainly comprised our Company, United Acme, Ever Sky, Ever Smart, D&S, Alliance and Tin Da. For further details on the changes in the shareholding structure of our subsidiaries and our corporate structure, please refer to “Corporate history” in this section.

Immediately following the completion of the Capitalisation Issue and the [REDACTED], Mr. KW Ho will, through Asia Matrix, control [REDACTED]% of the voting rights in our Company (without taking into account any Shares which may be allotted and issued upon the exercise of any option which may be granted under the Share Option Scheme).

#### **Our business development**

Our Group’s history can be traced back to the commencement of business of Ever Sound in 2009 in Hong Kong, which was financed by the personal resources of Mr. KW Ho and Mr. KC Ho. Since the inception stage, our Group has focused on providing value-added services to our customers and outsourced footwear manufacturing to our footwear suppliers. Over the years, we have strategically developed into a provider of comprehensive footwear design and development, production management (including quality control) and logistics management service. Over the years of our operations since 2009, we have built a diverse global customer portfolio comprising mainly international wholesalers and retailers which are brand owners and/or licensees of formal and casual footwear. We offer formal and casual footwear for men, women and children.

Going forward, we target to achieve our business objective by implementing the business strategies set out in the section headed “Business – Our business objectives and strategies” in this [REDACTED].

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## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

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### Milestones for our Group

The following table summarises key events of our Group’s development from its inception to the present scale of operations:

| Year | Milestones  |
|------|---|
| 2009 | Started cooperation with a licence holder of various brands listed on the Australian Securities Exchange<br><br>Started cooperation with Wolverine World Wide, Inc, a US based global marketer of branded footwear whose shares are listed on the New York Stock Exchange   |
| 2010 | Started cooperation with a UK based fashion retailer offering quality clothing and accessories whose shares are listed on the London Stock Exchange   |
| 2013 | Started cooperation with Target Australia Pty Ltd, a department store chain in Australia offering products including fashionable clothing, footwear and accessories, and a subsidiary of a company listed on the Australian Securities Exchange<br><br>Ever Smart was granted ISO 9001:2008 by China Quality Certification Centre |
| 2014 | Started cooperation with SportDirect.com Retail Limited, a subsidiary of a UK based sports retailer whose shares are listed on the London Stock Exchange  |

## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

### CORPORATE HISTORY

All the direct and indirect subsidiaries of our Company are listed below:

| Company name | Place of incorporation | Date of incorporation | Type of legal entity      | Issued and fully paid share capital/ registered capital as at the Latest Practicable Date | Attributable equity interest as at the Latest Practicable Date |                 | Principal activities as at the Latest Practicable Date        |
|--------------|------------------------|-----------------------|---------------------------|---|--|-----------------|---|
|              |                        |                       |                           |   | Directly held  | Indirectly held |   |
| United Acme  | BVI                    | 9 January 2015        | Limited liability company | US\$4   | 100%   | –               | Investment holding  |
| Ever Smart   | Hong Kong              | 6 August 2008         | Limited liability company | HK\$1   | –  | 100%            | Design, development, sourcing, marketing and sale of footwear |
| Ever Sky     | Hong Kong              | 3 December 2009       | Limited liability company | HK\$1   | –  | 100%            | Investment holding  |
| D&S          | Hong Kong              | 5 December 2013       | Limited liability company | HK\$1   | –  | 100%            | Inactive  |
| Alliance     | Hong Kong              | 2 August 2010         | Limited liability company | HK\$10,000  | –  | 100%            | Inactive  |
| Tin Da       | PRC                    | 3 December 2010       | Limited liability company | HK\$5 million   | –  | 100%            | Design, development and sourcing of footwear                  |

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## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

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The following sets forth the corporate development of our subsidiaries since their respective date of incorporation:

### *Ever Smart*

Ever Smart was incorporated on 6 August 2008 and is principally engaged in the design, development, sourcing, marketing and sale of footwear.

As at the date of its incorporation, one share was issued to an independent initial subscriber. On 15 January 2009, the one subscriber share, which represented the entire issued share capital of Ever Smart, was transferred to Ever Sound from the subscriber at par and such transfer was properly and legally completed and settled.

On 5 February 2015 and as part of the Reorganisation, Ever Sound transferred the one subscriber share to United Acme. In consideration thereof, United Acme, at the direction of Mr. KW Ho, allotted and issued one share, credited as fully paid, to Mr. KW Ho. The said transfer and allotment of shares were properly and legally completed and settled. Following the completion of the transfer, Ever Smart became a wholly-owned subsidiary of United Acme.

### *Ever Sky*

Ever Sky was incorporated on 3 December 2009 and is the holding vehicle of Tin Da.

As at the date of its incorporation, one share was issued to an independent initial subscriber. On 27 January 2010, the one subscriber share, which represented the entire issued share capital of Ever Sky, was transferred to Mr. Kwok at par from the subscriber and such transfer was properly and legally completed and settled. Pursuant to a confirmatory deed executed by Mr. Kwok on 3 March 2015, Mr. Kwok confirmed that he held the said subscriber share for and on behalf of Ever Smart since 27 January 2010. Such arrangement was due to the facts that (i) Mr. Kwok, being the brother-in-law of Mr. KC Ho and the uncle of Mr. KW Ho, is trustworthy to them; and (ii) Mr. Kwok has been well acquainted with Mr. Fang, who, in the opinion of Mr. KW Ho and Mr. KC Ho at the material time, was a suitable person to act as the director, legal representative and general manager of Tin Da as his personal network in Dongguan could help Tin Da operate smoothly at the inception stage if the share in Ever Sky was held by Mr. Kwok on behalf of Mr. KC Ho and Mr. KW Ho.

On 3 March 2015 and pursuant to the Reorganisation, Mr. Kwok, at the instruction of Ever Smart, transferred back the one subscriber share to Ever Smart at the consideration of HK\$1, and the transfer was properly and legally completed and settled.

### *D&S*

D&S was incorporated on 5 December 2013. As at the date of its incorporation, D&S was wholly owned by Ever Sound.

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## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

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On 5 February 2015 and as part of the Reorganisation, Ever Sound transferred one share in D&S, which represented the entire issued share capital of D&S, to United Acme. In consideration thereof, United Acme, at the direction of Mr. KW Ho, allotted and issued one share, credited as fully paid, to Mr. KW Ho. The said transfer and allotment of shares were properly and legally completed and settled. Following the completion of the transfer, D&S became a wholly-owned subsidiary of United Acme.

### *Alliance*

Alliance was incorporated on 2 August 2010. As at the date of its incorporation, Alliance was wholly owned by Ever Sound. Our Group intended to source and expand our customer base through cooperating with Mr. Adam Rogers (“**Mr. Rogers**”) and Mr. Hobart Ryan James (“**Mr. Hobart**”), who were former employees of one of our customers at the material time. Under the cooperation arrangement, Mr. Rogers and Mr. Hobart were responsible for communication with clients and merchandising while Ever Sound was responsible for communication with the OEMs and funding the business of Alliance. In light of the aforesaid, on 17 December 2010, 3,999 shares, 4,000 shares and 2,000 shares were respectively allotted and issued to Ever Sound, Mr. Rogers and Mr. Hobart at par. After such allotment, Alliance was owned as to 40% by Ever Sound, 40% by Mr. Rogers and 20% by Mr. Hobart.

In 2014, Mr. Rogers, Mr. Hobart and our Group agreed to terminate our cooperation as the business performance of Alliance did not meet our expectations. On 21 November 2014, Mr. Rogers and Mr. Hobart transferred 4,000 shares and 2,000 shares to Ever Sound at the consideration of HK\$4,000 and HK\$2,000, respectively, which were agreed between the parties on arm’s length basis and determined with reference to the issued share capital of Alliance. The said transfers were properly and legally completed and settled. Since then and before the Reorganisation, Alliance had been fully owned by Ever Sound.

On 5 February 2015 and as part of the Reorganisation, Ever Sound transferred 10,000 shares, which represented the entire issued share capital of Alliance, to United Acme. In consideration thereof, United Acme, at the direction of Mr. KW Ho, allotted and issued one share, credited as fully paid, to Mr. KW Ho. The said transfer and allotment of shares were properly and legally completed and settled. Following the completion of the transfer, Alliance became a wholly-owned subsidiary of United Acme. As at the Latest Practicable Date, Alliance had become inactive.

### *Tin Da*

Tin Da was established in the PRC as a wholly foreign-owned enterprise on 3 December 2010. Upon incorporation, the equity interests of Tin Da were wholly owned by Ever Sky. As at the Latest Practicable Date, the registered capital of Tin Da was HK\$5 million, which had been fully paid up. Tin Da is mainly engaged in the design, development and sourcing of footwear.

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## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

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Mr. Fang had acted as the director, legal representative and general manager of Tin Da since the date of its incorporation, as Mr. KW Ho and Mr. KC Ho believed that his personal network in Dongguan, the PRC could help Tin Da operate smoothly under the leadership of Mr. KW Ho at the inception stage. Pursuant to a confirmation executed by, among others, Tin Da and Mr. Fang on 11 September 2015, (i) since the incorporation of Tin Da, Mr. KW Ho had been participating in the daily management of Tin Da and important decisions of Tin Da shall be subject to the approval of Mr. KW Ho; and (ii) Mr. Fang had consulted and obtained approval from Mr. KW Ho before he executed any important documents on behalf of Tin Da.

On 25 September 2015, Mr. Fang resigned as director, legal representative and general manager of Tin Da due to personal reason. On the same date, Mr. Diao Dongyang (“**Mr. Diao**”) was appointed as director, legal representative and general manager of Tin Da. Our Directors believe that the resignation of Mr. Fang will not have any adverse impact on the operation of Tin Da as Tin Da will continue to be led by Mr. KW Ho, with the assistance of its management team, including Mr. Diao. Mr. Diao has confirmed that he will continue to consult and obtain approval from Mr. KW Ho before he executes any important documents on behalf of Tin Da.

After completion of the Reorganisation, Tin Da is indirectly wholly owned by our Company.

### ***United Acme***

United Acme was incorporated with limited liability under the laws of the BVI on 9 January 2015 and was wholly owned by Mr. KW Ho prior to the Reorganisation. It is an investment holding company and the holder of the entire issued share capital of each of (i) Ever Smart (which in turn directly holds the entire issued share capital of Ever Sky and indirectly holds the entire equity interest of Tin Da through Ever Sky); (ii) D&S; and (iii) Alliance.

The following company ceased to be part of our Group after the Reorganisation and will not be included in our Group upon [REDACTED]:

### ***Ever Sound***

Ever Sound was incorporated in Hong Kong with limited liability on 26 June 2008. As at the date of its incorporation, one share was issued to an independent initial subscriber. On 5 January 2009, the one subscriber share, which represented the entire issued share capital of Ever Sound, was transferred to Mr. KC Ho and such transfer was properly and legally completed and settled. On 6 January 2009, Ever Sound allotted and issued 54 shares and 45 shares to Mr. KC Ho and Mr. KW Ho at par respectively, whereby Ever Sound was owned as to 55% by Mr. KC Ho and 45% by Mr. KW Ho. Since then, both Mr. KC Ho and Mr. KW Ho were directors of Ever Sound. Ever Sound was under the management and control of Mr. KC Ho and Mr. KW Ho together with its senior management whereas Mr. KC Ho had acted according to the instructions and direction of Mr. KW Ho for all management affairs and in exercising his voting rights in the shareholders’ meeting and board of directors’ meetings. In



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## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

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2013, Mr. KC Ho decided to retire from his shoe trading business and he subsequently resigned as a director of Ever Sound on 24 January 2014. On 24 January 2014, Mr. KC Ho also transferred his entire shareholding in Ever Sound to Mr. KW Ho at a consideration of HK\$11,566,000 (the “**Share Transfer**”). As part of the family arrangement, on 3 December 2014, Mr. KC Ho agreed to waive the consideration payable by Mr. KW Ho for the Share Transfer, in consideration of Mr. KW Ho’s agreement to relinquish all his entitlement to the estate of the late Mrs. KC Ho. The Share Transfer was properly and legally completed and settled on 3 December 2014. After the Share Transfer, Mr. KW Ho and the senior management continued to manage our Group.

The Share Transfer, the difference in shareholding of Mr. KC Ho and Mr. KW Ho in Ever Sound from 6 January 2009 to 24 January 2014 as well as the management and control of Ever Sound during the period in which both Mr. KC Ho and Mr. KW Ho were shareholders and directors of Ever Sound represented only a family arrangement in a family business between the father and a son. Notwithstanding that Mr. KW Ho has had de facto control over the business, operation and management of our Group since its establishment, Mr. KC Ho and Mr. KW Ho did not find it particularly important and imminent, nor did they think there was any commercial reason, to transfer the shares of Mr. KC Ho to Mr. KW Ho at the material time. Therefore, it was only until Mr. KC Ho decided to retire from his shoe trading business that he transferred his entire shareholding interests in Ever Sound to Mr. KW Ho and formalised the said family arrangement in relation to Ever Sound.

Ever Sound was a holding company which held the entire issued share capital of Ever Smart, D&S and Alliance prior to the Reorganisation. After the Reorganisation, Ever Sound ceased to be part of our Group and became inactive. Please refer to “Reorganisation” in this section for details.

### Parties acting in concert

On 25 October 2014, Mr. KC Ho and Mr. KW Ho executed the Confirmatory Deed (as supplemented on 16 September 2015) to acknowledge and confirm that, among other things, during the period covering the commencement date of the Track Record Period and up to 24 January 2014 (the period during which both of them were interested in the share capital of Ever Sound and its then subsidiaries (the “**Relevant Companies**”) and/or were the directors of the said companies):

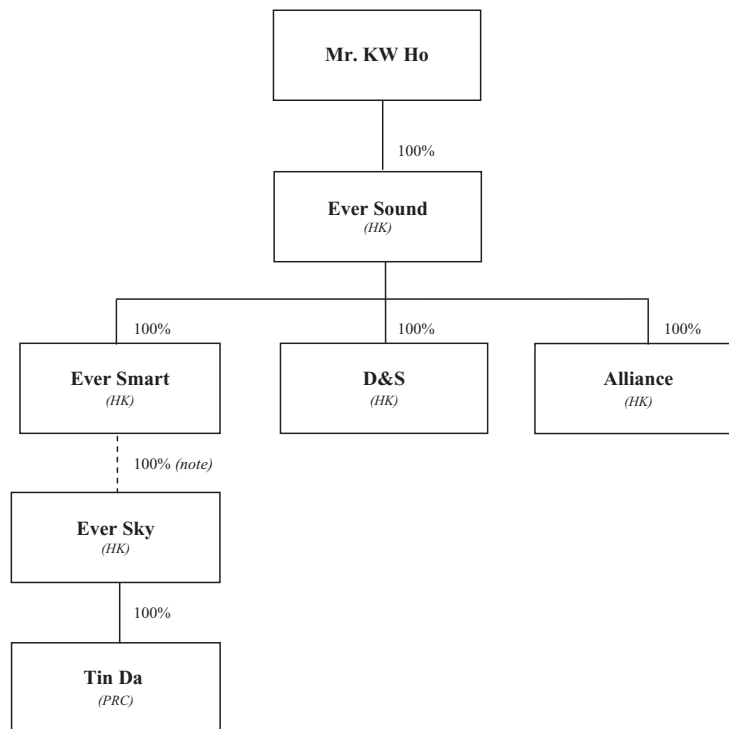
- (i) Mr. KC Ho had exercised his voting rights at the shareholders’ meetings and board of directors’ meetings of the Relevant Companies according to the instructions and direction of Mr. KW Ho and he had not exercised his voting rights against the instructions and direction of Mr. KW Ho, thus, Mr. KC Ho and Mr. KW Ho had casted unanimous vote collectively for or against all resolutions in all meetings of the Relevant Companies;

## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

- (ii) Mr. KC Ho had acted according to the instructions and direction of Mr. KW Ho for the business and all management affairs of each of the Relevant Companies and thus, solely based on the fact that Mr. KC Ho is being deemed as a Controlling Shareholder, he therefore had de facto control of the Relevant Companies together with Mr. KW Ho but not otherwise; and
- (iii) Mr. KC Ho and Mr. KW Ho had acted in concert and collectively for all management affairs and the arrival and/or execution of all business decisions of each of the Relevant Companies to the extent that Mr. KC Ho had acted according to the instructions and direction of Mr. KW Ho.

### REORGANISATION

The following chart sets forth the corporate and shareholding structure of our Group immediately prior to the Reorganisation:



*Note:* Pursuant to a confirmatory deed dated 3 March 2015, Mr. Kwok confirmed that he held the entire issued share capital of Ever Sky in trust for and on behalf of Ever Smart since 27 January 2010, which is the date he became the shareholder of Ever Sky.

Our Group underwent the Reorganisation in preparation for the [REDACTED]. The principal steps involved in the Reorganisation are summarised below:

- (a) Asia Matrix was incorporated under the laws of the BVI with limited liability on 9 January 2015 with an authorised share capital of US\$50,000 divided into 50,000 shares of US\$1 each. No share was allotted and issued upon incorporation. On 21 January 2015, one share was allotted and issued to Mr. KW Ho at par, who then owned the entire issued share capital of Asia Matrix.

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## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

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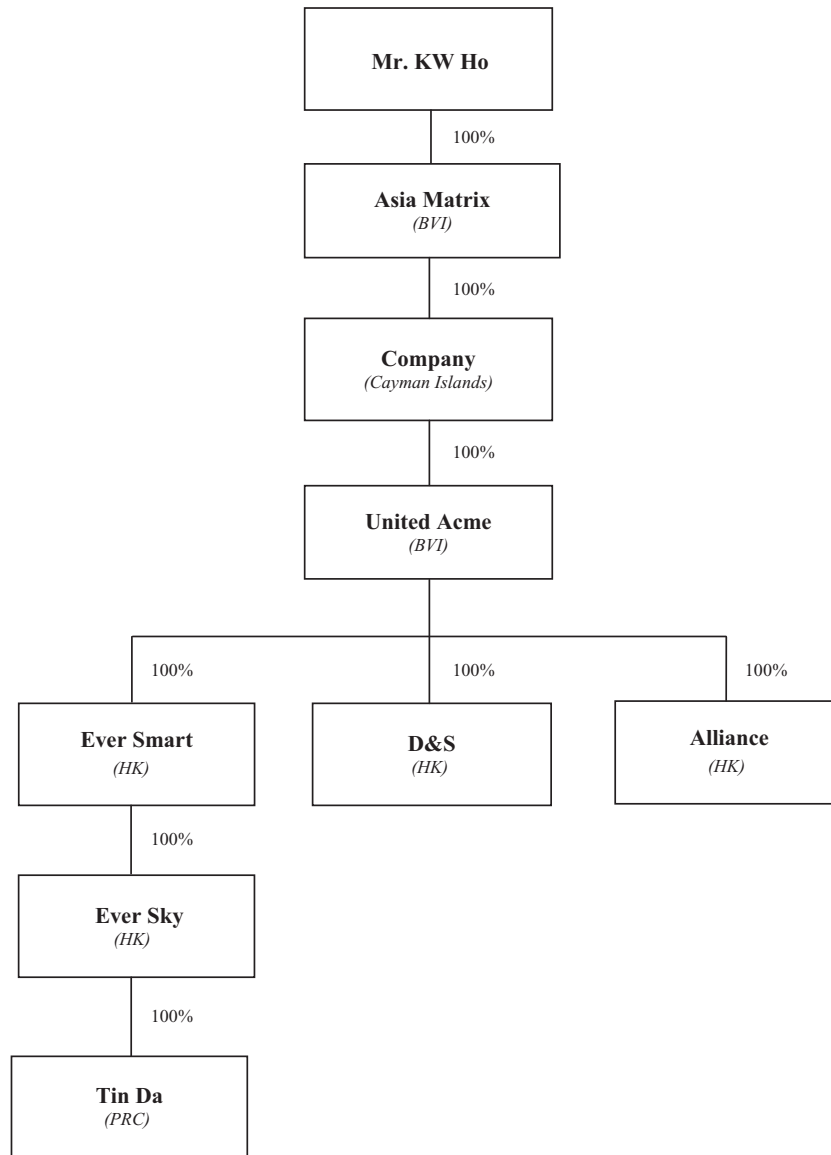
- (b) United Acme was incorporated under the laws of the BVI with limited liability on 9 January 2015 with an authorised share capital of US\$50,000 divided into 50,000 shares of US\$1 each. No share was allotted and issued upon incorporation. On 21 January 2015, one share was allotted and issued to Mr. KW Ho at par, who then owned the entire issued share capital of United Acme.
- (c) On 5 February 2015, Ever Sound transferred the entire issued share capital of Ever Smart to United Acme. In consideration thereof and at the direction of Mr. KW Ho, United Acme allotted and issued one share, credited as fully paid, to Mr. KW Ho at par. The said transfer and allotment of shares were properly and legally completed and settled.
- (d) On 5 February 2015, Ever Sound transferred the entire issued share capital of D&S to United Acme. In consideration thereof and at the direction of Mr. KW Ho, United Acme allotted and issued one share, credited as fully paid, to Mr. KW Ho. The said transfer and allotment of shares were properly and legally completed and settled.
- (e) On 5 February 2015, Ever Sound transferred the entire issued share capital of Alliance to United Acme. In consideration thereof and at the direction of Mr. KW Ho, United Acme allotted and issued one share, credited as fully paid, to Mr. KW Ho. The said transfer and allotment of shares were properly and legally completed and settled.
- (f) Our Company was incorporated as an exempted company in the Cayman Islands on 6 February 2015 with an authorised share capital of HK\$380,000 divided into 38,000,000 Shares of HK\$0.01 each. One nil paid subscriber Share was allotted and issued to the subscriber, which was then transferred to Mr. KW Ho on the same date.
- (g) On 3 March 2015, Mr. Kwok transferred the entire issued share capital of Ever Sky to Ever Smart at the consideration of HK\$1 and such transfer was properly and legally completed and settled.
- (h) On 20 August 2015, pursuant to the Reorganisation Agreement, our Company acquired all the issued share capital of United Acme from Mr. KW Ho and in consideration thereto:
  - (i) the one nil paid subscriber Share held by Mr. KW Ho was credited as fully paid; and
  - (ii) our Company issued and allotted 999 Shares, credited as fully paid, to Asia Matrix, as directed by Mr. KW Ho, and such allotment was properly and legally completed and settled.
- (i) On 20 August 2015, Mr. KW Ho transferred his one fully paid subscriber Share in our Company to Asia Matrix at the consideration of HK\$1 and such transfer was properly and legally completed and settled.

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## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

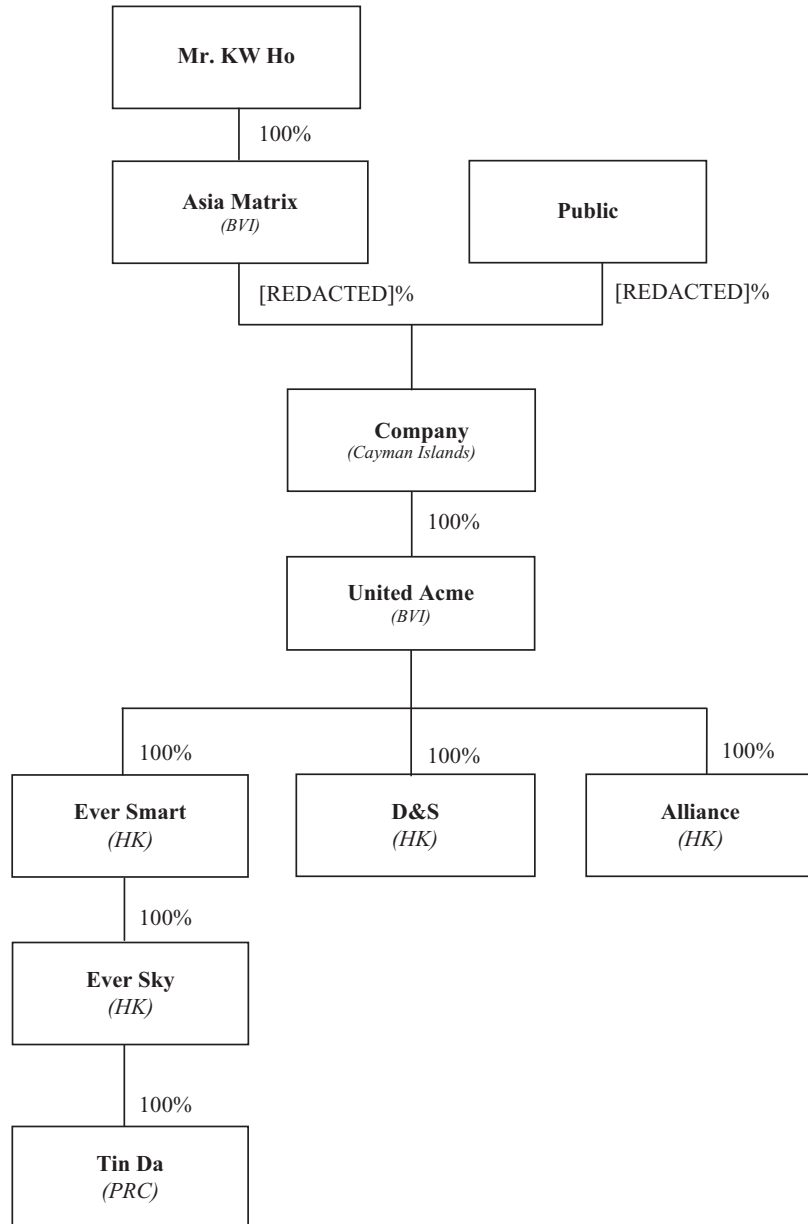
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Upon completion of the Reorganisation set out above, our Company became the holding company of our Group. The following chart sets out the shareholding and corporate structure of our Group immediately after the Reorganisation but prior to completion of the [REDACTED] and the Capitalisation Issue:



## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

The following chart sets out the shareholding and corporate structure of our Group immediately upon completion of the [REDACTED] and the Capitalisation Issue (assuming that no Share is issued pursuant to the exercise of options which may be granted under the Share Option Scheme):



## BUSINESS

### OVERVIEW

Our Group is principally engaged in the provision of footwear design and development, production management (including quality control) and logistics management service.

Over the years of our operations since 2009, we have built a diverse global customer portfolio comprising mainly international wholesalers and retailers which are brand owners and/or licensees of formal and casual footwear. During the Track Record Period, almost all of our footwear was exported overseas with shipment destinations covering more than 30 countries including Australia, United Kingdom, Chile, New Zealand, United Arab Emirates, the US and Russia. Sales to overseas customers accounted for approximately 98.8%, 97.7% and 98.5% of our total revenue for the three years ended 31 December 2015, respectively. The following table sets out some of our major customers during the Track Record Period and up to the Latest Practicable Date:

| Customers                       | Background  | Brands for which we provided footwear   | Approximate length of business relationship with our Group (months) |
|---------------------------------|---|---|---|
| Wolverine World Wide, Inc       | US based global marketer of branded footwear whose shares are listed on the New York Stock Exchange | Hush Puppies<br>Soft Style  | 84  |
| SportsDirect.com Retail Limited | A subsidiary of a UK based sports retailer whose shares are listed on the London Stock Exchange     | Giorgio<br>Miss Fiori<br>Kangol<br>Firetrap   | 29  |
| Brand Collective Pty Ltd        | Australia based company which unites lifestyle brands across apparel, footwear and accessories      | Clarks<br>(Australia only)<br>Hush Puppies<br>(Australia only)<br>Grosby<br>Gro Shu | 18  |

## BUSINESS

| <b>Customers</b>         | <b>Background</b>  | <b>Brands for which we provided footwear</b> | <b>Approximate length of business relationship with our Group (months)</b> |
|--------------------------|--|--|--|
| Target Australia Pty Ltd | A department store chain in Australia offering products including fashionable clothing, footwear and accessories, and a subsidiary of a company listed on the Australian Securities Exchange | Target                                       | 36   |
| Forus S.A.               | A branded footwear wholesaler and retailer based in South America whose shares are listed on Santiago Stock Exchange   | Hush Puppies<br>Rockford<br>Calpany          | 76   |
| P.T. Transmarco          | A retail group engaged in the distribution of multiple international branded footwear based in Singapore, Malaysia and Indonesia   | Hush Puppies                                 | 84   |

By collaborating with our customers, we leverage our talent, extensive international footwear and fashion exposure and experience to accommodate their needs (including design preferences, footwear styles and application of materials) in view of market trends.

Since our inception, we have strategically focused on providing value added services to our customers. Having considered the capital investment in establishing and running a footwear factory, we choose to outsource footwear manufacturing strategically to our footwear suppliers instead of building our own footwear factories. We have established reliable and long term relationships with a number of quality footwear suppliers located in Wenzhou, Fujian and Dongguan which are major footwear manufacturing bases in China.



## BUSINESS

To ensure the quality of footwear, we closely monitor product quality throughout the production process. Our full span quality control covers raw material examination, footwear production process monitoring, finished footwear checking and testing, and packaging inspection. This ensures that our footwear can meet the high quality demands of our customers and consumers. Some of our customers will also send their quality control staff or designated inspection companies to inspect the finished footwear before shipment. We also manage the logistics arrangements of finished footwear and, after product delivery, liaise with our customers for after-sale feedback on our footwear and services so that we can continuously refine and improve our standards.

We offer formal and casual footwear for men, women and children. We target low to middle end footwear sectors which, according to the Frost & Sullivan Report, refer to footwear with retail prices as set out below:

|                   | <b>Footwear retail price</b> |                |                 |
|-------------------|------------------------------|----------------|-----------------|
|                   | <b>Men</b>                   | <b>Women</b>   | <b>Children</b> |
| <b>Low end</b>    | below USD50                  | below USD60    | below USD8      |
| <b>Middle end</b> | USD50 – USD165               | USD60 – USD180 | USD8 – USD60    |

During the Track Record Period, the retail price of our footwear ranged from approximately US\$10 to US\$120 (equivalent to approximately HK\$78 to HK\$936) per pair, which has enabled us to capture the demand of an extensive group of customers for style and quality branded footwear resulting from enhanced living standard and disposable income in our export countries. Our footwear is mainly made of cattle leather, PU and rubber.

For the three years ended 31 December 2015, our revenue from sales of footwear was approximately HK\$303.4 million, HK\$243.7 million and HK\$302.7 million, respectively. Profit attributable to owner of our Company during the Track Record Period was approximately HK\$10.5 million, HK\$8.4 million and HK\$6.4 million, respectively.

### OUR COMPETITIVE STRENGTHS

Our Directors believe that we have the following competitive strengths:

#### **Our experienced management team with international and extensive industry exposure ensures the successful development of our business**

Our management team possesses international and extensive industry exposure and experience. Our executive and senior management team includes Mr. KW Ho, Mr. Tan and Mr. Shek who have earned approximately 12, 25 and 15 years of experience in the footwear and/or apparel industry, respectively. Please see the section headed “Directors, senior management and staff” in this [REDACTED] for the profile and background of our Directors and senior management. The combination of their in-depth knowledge and experience in the footwear and apparel industry has enabled our Group to develop sustainable business strategies, anticipate changes in fashion trends, assess and manage risks and capture market

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## BUSINESS

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opportunities. In view of the foregoing, we believe our management team is capable of managing our business properly and ensuring that our business can continue to develop and flourish.

### **Close relationship with reliable footwear suppliers**

We have established close and stable business relationship with a number of quality footwear suppliers. During the Track Record Period and up to the Latest Practicable Date, we have maintained business relationship with 70 footwear suppliers. Up to the Latest Practicable Date, we had established approximately 3 to 7 years of relationship with our five largest footwear suppliers for the Track Record Period. We believe that our ability to provide high standard footwear depends to some extent on our ability to select suitable footwear suppliers which possess the appropriate skills, craftsmanship and capacity based on our customers’ requirements. Our close relationship with various reliable footwear suppliers not only enable us to keep abreast of the latest production know-how and market information but also help us in meeting the requirements of our customers for high quality footwear on a timely basis.

### **Our comprehensive footwear design and development, production management and logistics management service adds value to our customers**

By engaging our comprehensive footwear design and development, production management and logistics management service, our customers can rely on us to fulfill their needs for a full spectrum services, ranging from footwear design, selection of suitable footwear suppliers, production management to finished footwear logistics management. Our Directors believe that our services are cost effective and time efficient for our customers as compared to engaging separate service providers, manufacturers and logistic companies by themselves along the footwear supply chain. Our comprehensive service adds value to our customers by offering them with one stop services for design supports, manufacturing quality control and logistics management in a cost effective and timely manner.

### **Stringent quality assurance and control measures ensure that our products are of high quality to satisfy international branded customers’ needs**

As we believe that our customers generally demand high quality products and services from their suppliers, we have implemented stringent quality control measures to ensure that the footwear we offer is of high quality. Our quality control staff participate throughout the production process. We examine the quality of raw materials procured by our footwear suppliers, perform on-site production inspection and examine finished footwear before they are delivered to our customers. For customers which have their requirements on ethical and social compliance standards that footwear suppliers shall comply with, we will assist our footwear suppliers to understand and comply with such requirements. We believe that our quality control measures, together with our footwear design and development capabilities, are the principal factors that enable us to attract and retain our international branded customers.

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## BUSINESS

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### OUR BUSINESS OBJECTIVES AND STRATEGIES

Our business objectives are to maintain our growth in footwear design and development, production management and logistics management service industry and enhance our overall competitiveness and market share.

To achieve our business objectives, we will implement the following business strategies:

#### **1. Broadening our customer base and product offerings**

We intend to collaborate with our existing customers to broaden our customer base. We have been proactively approaching potential customers for business opportunities through business referrals by existing customers and business network. We plan to broaden our customer base by leveraging our comprehensive footwear design and development, production management and logistics management service and continue to expand our portfolio of international branded customers by referrals. We also plan to expand our product offerings of women’s footwear to our customers. Besides, we plan to lease a new office incorporating a showroom to target overseas customers where we can promote our quality products and services. In order to facilitate these plans, we intend to recruit additional sales representatives to support our initiatives to broaden our customer base and product offerings.

#### **2. Enhancing design, development and production management capabilities**

Product design and development as well as production management form a major part of our comprehensive footwear design and development, production management and logistics management service. We plan to continue enhancing our design and development capabilities by hiring additional designers to expand our design and development team. With a view to shortening our product development time, we intend to employ more advance technology such as 3D printing technology in footwear development to enable us to correct, adjust and modify footwear samples in a more timely and efficient manner. Further, we also intend to strengthen our production management capabilities by recruiting an experienced shoe technician to enhance our knowledge on footwear technical requirements and standards of different customers. In order to reinforce our quality management and logistics management services, we will recruit additional quality control and shipping staff.

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## **BUSINESS**

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### **3. Obtaining licences of multiple brands**

By becoming licensee of multiple footwear brands, we intend to offer branded footwear that we design to our existing network of customers and attract new customers around the world. This would enable us to expand our product portfolio to include brands mainly targeting adult’s fashion and athletic footwear. We plan to engage professional parties to assist us in performing research, investigation and due diligence on brand licensing.

### **4. Enhancing our corporate image**

We plan to leverage our market presence, quality products and services to attract new international brand owners and licensees to grow our business. By participating in major footwear trade shows and fairs internationally, we target to create a higher profile and corporate image. This will enable us to market our comprehensive footwear design and development, production management and logistics management service to new customers to broaden our revenue sources.

### **5. Improving our information technology system**

Our growth and development would rely on an advanced information technology system which assists our Group to make commercial assessments and decisions. We plan to enhance and upgrade our business management system for producing a more comprehensive information database of our customers, products, quality control, footwear suppliers and financial reporting.

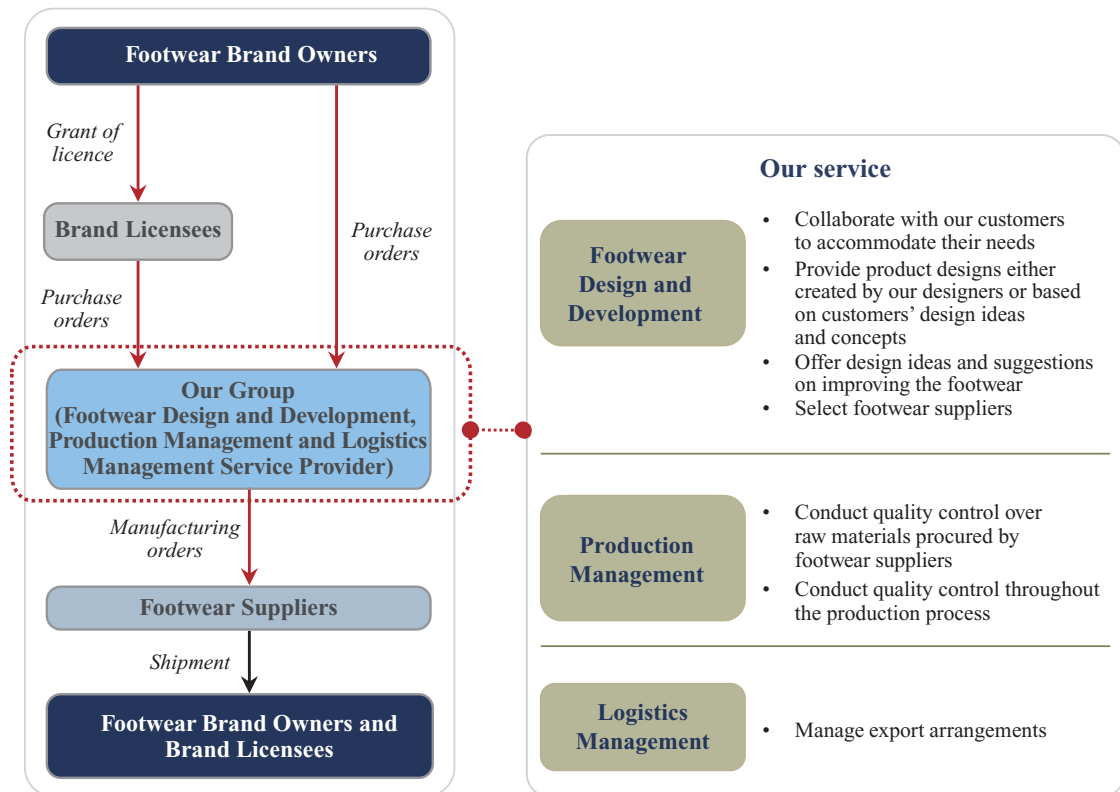
## BUSINESS

### OUR BUSINESS

Our Group is principally engaged in the provision of footwear design and development, production management (including quality control) and logistics management service. Over the years of our operations since 2009, we have built a diverse global customer portfolio comprising mainly international wholesalers and retailers which are brand owners and/or licensees of formal and casual footwear.

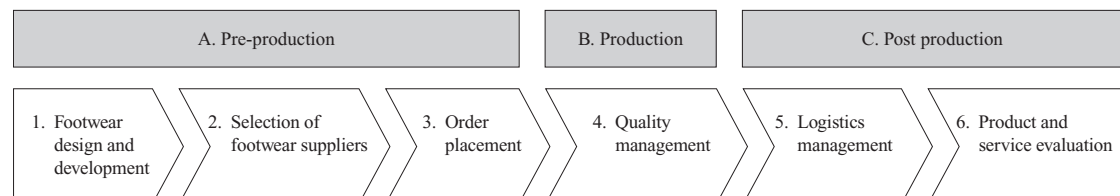
#### Business model

The following simplified diagram illustrates our business model:



#### Operation flow

The following simplified diagram illustrates the flow of our operations:



## BUSINESS

The lead time of our product development and production varies for different orders depending on factors including the complexity of designs and order size. The following table sets out the approximate lead time of our product development and production:

|                     | <b>Brand new design</b> | <b>Modification of existing design</b> | <b>Repeated order</b> |
|---------------------|-------------------------|--|-----------------------|
| Product development | 3 – 6 months            | 1 – 2 months                           | –                     |
| Production          | 2 – 5 months            | 2 – 5 months                           | 2 – 3 months          |

### A. PRE-PRODUCTION

#### 1. Footwear design and development

By collaborating with our customers, we leverage our talent, extensive international footwear and fashion exposure and experience to accommodate their needs (including design preferences, footwear styles and application of materials) in view of market trends. Our Group’s design team comprises seven members, three of whom have completed tertiary education in design. They possess approximately 4 to 17 years of design and footwear related working experience. Our designers will provide our customers with product designs created either by themselves or based on our customers’ design ideas and concepts. When our customers have their designated designs, our design team will, based on product specifications and requirements provided by our customers, offer design ideas and suggestions on product improvements. As advised by our Hong Kong Legal Advisers, insofar as the product designs are created by our designers, the copyright of the product designs should be owned by our Group. On the other hand, if the product designs are provided by our customers, the copyright of the product designs should be owned by the authors of such designs or, subject to any agreement with the authors, our customers. Each staff of our Group has signed a written confirmation to (i) confirm that all intellectual property rights created or made during their employment with our Group shall belong to us; and (ii) agree not to use or disclose the confidential information relating to the product designs without authorisation of our Group. Also, it is our Group’s internal control policy only to place manufacturing orders to our footwear suppliers that have signed a confidentiality agreement with us to ensure that intellectual property rights of our customers for their footwear are properly protected when we outsource the manufacturing process to our footwear suppliers.

After finalising the design concepts and selection of footwear suppliers, various prototype samples will be made for our customers’ consideration. When necessary, modifications will be made to improve the product design. We generally do not charge our customers separately for providing footwear design and development as such service is taken into account when we prepare our selling price for the footwear. However, we charge our customers for sample production costs when (i) specialised materials and new outsoles are needed; or (ii) a large number of samples is requested by our customers.

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## BUSINESS

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### 2. Selection of footwear suppliers

#### *Our OEMs*

Our footwear suppliers comprise mainly OEMs. Over the years of our operations since 2009, we have built an extensive network of reliable OEMs whom we have good understanding of their individual skills, craftsmanship and production capacity. During the Track Record Period and up to the Latest Practicable Date, we maintained business relationship with 63 OEMs. Up to the Latest Practicable Date, we had established approximately 3 to 7 years of relationship with our five largest OEMs for the Track Record Period.

We select OEMs from our existing network based on the requirements of our customers including approximate price of product, order size, complexity of design, OEM’s experience, level of craftsmanship, production capacity, staff resources, quality control effectiveness, any specific configurations as required by our customers, and social compliance qualifications of OEMs (if required by our customers). In order to ensure that the finished footwear can be delivered in accordance with our customers’ requirements, we estimate the amount of time required for production based on our past experience and discuss with our customers and OEMs to fix a feasible production schedule.

In the event of engaging a new OEM for our customers’ purchase orders, our facilities sourcing manager and/or our quality control manager will conduct an on-site examination of the OEM’s facilities to assess its production and technical capabilities and the working conditions of the manufacturing facilities in order to ensure compliance with the manufacturing standards as stipulated by the relevant customer. We would only assign customers’ purchase orders to the newly approved OEMs if they can pass the examination carried out by our customers, where applicable.

We strategically focus on providing value added services to our customers. Having considered the capital investment in establishing and running a footwear factory, we choose to outsource footwear manufacturing strategically to OEMs instead of building our own footwear factories since inception. We mainly engage OEMs located in the PRC for footwear manufacturing but during the Track Record Period, we also started exploring the possibility of engaging OEMs in Indonesia, which generally offer lower manufacturing price than the OEMs in the PRC and would accept manufacturing orders on a small scale basis, in order to make our price more attractive and our service competitive. During the Track Record Period and up to the Latest Practicable Date, we had placed manufacturing orders for footwear to an OEM in Indonesia on a small scale basis.

For the three years ended 31 December 2015, our purchases from our OEMs amounted to approximately HK\$241 million, HK\$190 million and HK\$233 million, respectively, accounting for approximately 95%, 93% and 92% of our total purchases, respectively. Our purchases from our OEM in Indonesia accounted for less than 1% of our total purchases during the Track Record Period.



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## BUSINESS

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### *Trading companies*

During the Track Record Period, we have engaged seven trading companies which have the qualifications to export finished footwear from the PRC to overseas countries, and to supply footwear (such as flip flops and rain boots) which require low technical skills. Such trading companies engaged OEMs by themselves and handled the production management directly with such OEMs according to our product specifications and requirements. The trading companies submitted various product samples for our approval before commencement of mass production. Our quality control department also examined on a sample basis the quality of raw materials sourced by the OEMs engaged by the trading companies, performed on-site production inspection throughout the production process and performed final examination on a sample basis of the finished products before they were delivered to our customers. Unless the technical skills required for the footwear production are low, we generally liaise and handle the production management with the OEMs directly.

For the three years ended 31 December 2015, our purchases from our trading companies amounted to approximately HK\$12 million, HK\$15 million and HK\$19 million, respectively, accounting for approximately 5%, 7% and 8% of our total purchases, respectively.

### **3. Order placement**

Our customers will place their purchase orders with us, whereby the terms of the transactions will be agreed and fixed. We will then place corresponding manufacturing orders with our footwear suppliers, whereby the terms of transactions will be agreed and fixed.

We will instruct our footwear suppliers to produce confirmation samples for our customers' approval except for repeated orders under the same specifications. The confirmation samples approved by our customers will be sent to our footwear suppliers as a final reference for bulk production and also to our quality control department as references for product inspection. When necessary, our quality control department will monitor fitting trials performed by our footwear suppliers.

## **B. PRODUCTION**

### **4. Quality management**

#### *Our quality control department*

We place strong emphasis on product quality to ensure that finished footwear produced by our footwear suppliers is of high standard as demanded by our customers. As such, we have implemented stringent quality control measures. As at the Latest Practicable Date, our quality control department comprised 13 members stationed in the PRC.

Our quality control department is responsible for (i) examining raw materials procured by our footwear suppliers on a sample basis; (ii) performing on-site inspection throughout the production process; and (iii) examining finished products before delivery.

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## BUSINESS

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### *Quality control of raw materials*

Our footwear suppliers are responsible for sourcing all raw materials required for production, including the purchase of raw materials from suppliers as designated by our customers, if applicable. Generally, raw materials of our footwear are sourced by our footwear suppliers in the PRC. As part of our quality management process, we would examine the quality of raw materials purchased by our footwear suppliers on a sample basis, perform in-house testings and, when required by our customers, have the raw materials tested by third party laboratories as designated by our customers. Types of testing on raw materials that we are able to conduct in-house include (i) flexing test of upper materials; (ii) peeling strength test of upper materials; (iii) outsole flexing test; (iv) outsole adhesive resistance test; (v) non-yellow test (for white upper and sole); (vi) suede and canvas fastness color test; and (vii) metal oxidation test. Mass production by our footwear suppliers will only take place after examination and relevant testing on raw materials are passed.

### *Quality control of production process*

Apart from having quality control staff regularly stationed at the production facilities of one of our major footwear suppliers which is normally manufacturing our products throughout the year, our quality control staff will visit the production facilities of our footwear suppliers when they start manufacturing our products in order to ensure that our quality control standard will be adhered to. Our on-site quality control staff work closely with our footwear suppliers to monitor the production process and provide advice on production details and product quality so that finished footwear is of good and consistent quality as required by our customers. Examination of semi-finished footwear and finished footwear will be carried out by our quality control staff on a sample basis. We will also perform testing (such as outsole adhesive resistance test), on a sample basis, on finished footwear.

When our quality control staff undertake production inspection, they will report and upload their remarks for any defects or irregularities to our business management system. We will review such remarks and follow up with our footwear suppliers if there are any issues during the production process.

At the same time, we monitor and manage the production schedule to ensure that production of footwear will be completed according to the agreed delivery date as set out in the purchase order so that finished footwear can be delivered to our customers on time.

After the manufacturing process is completed, our footwear suppliers will pack finished footwear according to the instructions as required by our customers. Our quality control staff will inspect the packaging of footwear on a sample basis to ensure that the packaging of finished footwear meets our customers’ requirements and specifications. Some of our customers will send their quality control staff or designated inspection companies to inspect finished footwear before shipment.

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## BUSINESS

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### *Quality certification and recognition*

We have implemented and maintained a quality management system of high standard. We have been awarded ISO 9001:2008 certification since 2013, which is an internationally recognised quality assurance accreditation for quality management system.

## C. POST-PRODUCTION

### 5. Logistics management

Our shipping department manages the logistics arrangements of finished footwear. In order to ensure that finished footwear is delivered to the local ports as designated by our customers on time, we keep close communication with our customers, our footwear suppliers and customers’ appointed logistics companies on timing of delivery.

### 6. Products and service evaluation

After product delivery, we will liaise with our customers for after-sale feedback on our products and services (such as product quality) so that we can continuously refine and improve our standards to ensure that our customers are always satisfied with our product quality and services. We strongly believe that this helps to further strengthen bonding with our customers.

## PRODUCTS

We offer formal and casual footwear for men, women and children to our customers.

The major raw materials used for the production of our footwear include cattle leather, PU and rubber. Please refer to the section headed “Industry overview – Overview of global footwear market – Raw materials for production of footwear” in this [REDACTED] for the historical price trends of cattle leather, PU and rubber.

We adopt a stringent quality control system throughout the production process to ensure that our footwear can meet the quality as requested by our customers. Based on the experience of and best knowledge of our executive Directors, our footwear’s life span in terms of durability is approximately 1-2 years on the basis that the end user wears them as intended.

We target low to middle end footwear sectors which, according to the Frost & Sullivan Report, refer to footwear with retail prices as set out below:

|            | Footwear retail price |                |              |
|------------|-----------------------|----------------|--------------|
|            | Men                   | Women          | Children     |
| Low-end    | below USD50           | below USD60    | below USD8   |
| Middle-end | USD50 – USD165        | USD60 – USD180 | USD8 – USD60 |

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During the Track Record Period, the retail price of our footwear ranged from approximately US\$10 to US\$120 (equivalent to approximately HK\$78 to HK\$936) per pair, which has enabled us to capture the demand of an extensive group of customers for style and quality branded footwear resulting from enhanced living standard and disposable income in our export countries. Set out below are the selling price range of low to middle end footwear offered by footwear design and development, production management and logistics management service providers in China to their customers according to the Frost & Sullivan Report and the selling price range of our footwear to our customers during the Track Record Period:

**Selling price of footwear offered by footwear design and development, production management and logistics management service providers in China**

|                   | Men           | Women         | Children     |
|-------------------|---------------|---------------|--------------|
| <b>Low-end</b>    | below USD10   | below USD15   | below USD4   |
| <b>Middle-end</b> | USD10 – USD35 | USD15 – USD45 | USD4 – USD25 |

**Selling price range of our footwear to our customers during the Track Record Period**

| Footwear type     | For the year<br>ended 31 December<br>2013 | For the year<br>ended 31 December<br>2014 | For the year<br>ended 31 December<br>2015 |
|-------------------|---|---|---|
| Men’s formal      | USD7.50 – USD32.00                        | USD7.50 – USD32.00                        | USD7.57 – USD32.00                        |
| Men’s casual      | USD3.03 – USD22.41                        | USD3.03 – USD24.80                        | USD2.45 – USD26.80                        |
| Women’s formal    | –   | –   | USD18.63 – USD24.00                       |
| Women’s casual    | USD2.93 – USD17.50                        | USD2.93 – USD26.80                        | USD2.93 – USD20.92                        |
| Children’s formal | USD8.80 – USD24.80                        | USD10.86 – USD23.69                       | USD10.61 – USD20.08                       |
| Children’s casual | USD3.85 – USD42.25                        | USD4.45 -USD26.87                         | USD4.55 – USD18.60                        |

During the Track Record Period, the selling price of our footwear for men, women and children to our customers generally lied within the respective range of selling price of footwear offered by footwear design and development, production management and logistics management service providers in China for the low-end and middle-end sectors. For the two years ended 31 December 2014, the high-end selling price of our children’s casual footwear was above the high-end selling price offered by footwear design and development, production management and logistics management service providers in China for the middle-end footwear sector as set forth in the table above mainly due to the styles of footwear and types of raw materials used.

We commenced the sale of women’s formal footwear during the year ended 31 December 2015. Save for women’s casual and children’s casual footwear, the selling price range of each category of our footwear remained relatively stable during the Track Record Period. During the

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## BUSINESS

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Track Record Period, the low-end of the selling price range of our women's casual footwear remained the same, while there were variances in the high-end selling price due to different styles of footwear and raw materials used. In early 2014, we decided to terminate the business relationship with a Russian customer in view of its increasing credit risk resulting from the abrupt devaluation of Ruble and economic instability in Russia. As children's casual footwear ordered by such Russian customer included boots and shoes with wool which were of higher selling price, the high-end of the selling price range of our children's casual footwear was higher for the year ended 31 December 2013 than that for the two years ended 31 December 2015.

We adopt a cost-plus pricing model and our footwear is priced separately for each purchase order. The price of footwear we offer to our customers depends primarily on, among other things, production costs as quoted to us by our footwear suppliers, our Group's expected margins, type of footwear, complexity of production, the volume of orders and the timing of delivery of finished footwear.

The manufacturing price charged by our footwear suppliers include the cost of raw materials, while all raw materials of our footwear are procured by our footwear suppliers. Any fluctuation in the prices of raw materials would inevitably affect the manufacturing price. However, as our customers place purchase orders with us and then we place manufacturing orders with our footwear suppliers, the terms of the transactions, including the pricing terms, would be fixed almost simultaneously while no price terms adjustments are usually allowed thereafter. Generally any subsequent fluctuation or change in raw material costs will be borne by our footwear suppliers. For future potential orders, if any increase in raw material costs leads to a rise in the manufacturing costs of our footwear suppliers, we are generally able to pass on such increase to our customers.

Our footwear suppliers receive payment from us in USD while they pay for their production costs mainly in RMB. Any appreciation of RMB against USD would reduce the payment received by our footwear suppliers in terms of RMB. If our footwear suppliers request us to increase the manufacturing price, we are generally able to pass on such increase to our customers.

Further, in the event of appreciation of USD against other currencies (including those of our export countries and the PRC), the price of our footwear in terms of the respective currency would increase. If our customers request us to reduce our selling price, we would negotiate with our footwear suppliers to lower their manufacturing price. Under such circumstances, our footwear suppliers would normally agree to the reduction in their manufacturing price in view of the devaluation of RMB against USD. In addition, we would make suggestions to our customers to use less costly raw materials, such as by replacing leather with PU, so that the selling price to our customers in USD could be maintained.

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## BUSINESS

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Set out below is footwear we sold to our customers.

### *Men’s footwear – Formal*

Men’s formal footwear is usually worn together with office or business attires and is suitable for business and formal events. It is usually in black, tan, brown, burgundy or dark grey.



### *Men’s footwear – Casual*

Men’s casual footwear is usually worn together with lifestyle and contemporary clothing and is suitable for leisure and travelling and general working environment. It has a wide range of colour, style, materials and design to suit different lifestyle and occasions.



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## BUSINESS

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### *Women’s footwear – Formal*

Women’s formal footwear is usually worn in formal occasions such as client meetings to match with women’s formal wear and normally refers to mid-heeled shoes which cover both toes and heels.



### *Women’s footwear – Casual*

Women’s casual footwear is usually worn together with lifestyle and contemporary clothing and is suitable for walking, shopping, travelling and general working environment. Women’s casual footwear also has a wide range of colour, style, materials and design to suit different lifestyle and occasions.





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### *Children’s footwear – Formal*

Children’s formal footwear (also known as “back to school” footwear) is black in colour and usually worn together with school uniforms.



### *Children’s footwear – Casual*

Children’s casual footwear is usually worn together with lifestyle and contemporary clothing and is suitable for leisure and travelling. It has a wide range of colour, style, materials and design to suit different lifestyle and occasions.



## BUSINESS

Set out below is the revenue breakdown of our footwear during the Track Record Period:

|                            | For the year<br>ended 31 December<br>2013 |              | For the year<br>ended 31 December<br>2014 |              | For the year ended<br>31 December<br>2015 |              |
|----------------------------|---|--------------|---|--------------|---|--------------|
|                            | HK\$'000                                  | %            | HK\$'000                                  | %            | HK\$'000                                  | %            |
| Men's formal footwear      | 97,893                                    | 32.3         | 114,578                                   | 47.0         | 152,728                                   | 50.5         |
| Men's casual footwear      | 25,226                                    | 8.3          | 44,166                                    | 18.1         | 48,848                                    | 16.1         |
| Women's formal footwear    | –   | –            | –   | –            | 308                                       | 0.1          |
| Women's casual footwear    | 11,581                                    | 3.8          | 17,384                                    | 7.1          | 16,349                                    | 5.4          |
| Children's formal footwear | 42,681                                    | 14.1         | 43,533                                    | 17.9         | 67,376                                    | 22.3         |
| Children's casual footwear | 126,058                                   | 41.5         | 24,081                                    | 9.9          | 17,063                                    | 5.6          |
| <b>Total</b>               | <b>303,439</b>                            | <b>100.0</b> | <b>243,742</b>                            | <b>100.0</b> | <b>302,672</b>                            | <b>100.0</b> |

Set out below are the average selling price, sales volume and gross profit margin of our footwear during the Track Record Period:

|                            | For the year ended<br>31 December 2013 |                          |                                | For the year ended<br>31 December 2014 |                          |                                | For the year ended<br>31 December 2015 |                          |                                |
|----------------------------|--|--------------------------|--------------------------------|--|--------------------------|--------------------------------|--|--------------------------|--------------------------------|
|                            | Average<br>selling<br>price<br>HK\$    | Sales<br>volume<br>pairs | Gross<br>profit<br>margin<br>% | Average<br>selling<br>price<br>HK\$    | Sales<br>volume<br>pairs | Gross<br>profit<br>margin<br>% | Average<br>selling<br>price<br>HK\$    | Sales<br>volume<br>pairs | Gross<br>profit<br>margin<br>% |
| Men's formal footwear      | 146.99                                 | 665,993                  | 12.7%                          | 119.52                                 | 958,649                  | 12.8%                          | 128.79                                 | 1,185,909                | 13.9%                          |
| Men's casual footwear      | 64.45                                  | 391,408                  | 8.1%                           | 58.80                                  | 751,171                  | 12.2%                          | 60.59                                  | 806,229                  | 11.7%                          |
| Women's formal footwear    | –                                      | –                        | N/A                            | –                                      | –                        | N/A                            | 153.75                                 | 2,006                    | 9.3%                           |
| Women's casual footwear    | 53.19                                  | 217,682                  | 8.6%                           | 50.83                                  | 342,024                  | 11.1%                          | 43.32                                  | 377,366                  | 13.2%                          |
| Children's formal footwear | 116.46                                 | 366,477                  | 6.6%                           | 102.14                                 | 426,223                  | 11.2%                          | 103.41                                 | 651,567                  | 14.0%                          |
| Children's casual footwear | 91.68                                  | 1,374,915                | 13.3%                          | 88.91                                  | 270,839                  | 14.6%                          | 85.26                                  | 200,132                  | 15.8%                          |

During the Track Record Period, our Group provided a wide variety of footwear with different styles and types of raw materials which led to a broad range of selling price of our footwear. Please refer to the paragraph headed “Products” in this section for further information about the selling price range of our footwear to our customers during the Track Record Period. The average selling price of each footwear category in the above table represents the sales generated from a particular footwear category divided by the total sales volume of that category for the respective year. Accordingly, the average selling price would be affected by the product order mix from our customers during the year. The declining

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trend of the average selling price of different footwear categories over the Track Record Period was mainly attributable to the increase in sales volume of (i) formal footwear made of less costly materials such as PU; and (ii) casual footwear with simple styles and inexpensive materials such as flip flops. Nevertheless, we were generally able to improve our gross profit margin for our footwear during the Track Record Period except for a slight decrease in the gross profit margin of our men’s casual footwear for the year ended 31 December 2015 as the sales of casual footwear with simple styles and inexpensive materials, which generally commanded a lower gross profit margin than other types of casual footwear, continued to rise. Furthermore, we were able to expand the sales volume of different footwear categories during the Track Record Period, notwithstanding the decrease in sales volume of children’s casual footwear mainly due to our decision to terminate the business relationship with a Russian customer, which was a wholesaler of children’s casual footwear, in early 2014. Please refer to the paragraph headed “Customers – Our five largest customers” in this section for further details.

The table below sets forth our revenue breakdown by shipment destination of the footwear we sold to our customers for the Track Record Period:

|                         | For the year<br>ended 31 December<br>2013 |              | For the year<br>ended 31 December<br>2014 |              | For the year ended<br>31 December<br>2015 |              |
|-------------------------|---|--------------|---|--------------|---|--------------|
|                         | HK\$'000                                  | %            | HK\$'000                                  | %            | HK\$'000                                  | %            |
| Australia               | 88,141                                    | 29.0         | 96,641                                    | 39.6         | 110,345                                   | 36.5         |
| United Kingdom          | 10,512                                    | 3.5          | 35,021                                    | 14.4         | 85,020                                    | 28.1         |
| Chile                   | 15,022                                    | 5.0          | 15,411                                    | 6.3          | 17,598                                    | 5.8          |
| Belgium                 | 3,823                                     | 1.3          | 9,389                                     | 3.9          | 11,738                                    | 3.9          |
| New Zealand             | 9,850                                     | 3.2          | 13,863                                    | 5.7          | 10,698                                    | 3.5          |
| United Arab<br>Emirates | 8,928                                     | 2.9          | 13,180                                    | 5.4          | 7,582                                     | 2.5          |
| United States           | 10,754                                    | 3.6          | 11,152                                    | 4.6          | 9,722                                     | 3.2          |
| Russia                  | 94,962                                    | 31.3         | 1,220                                     | 0.5          | –   | –            |
| Other countries         | 61,447                                    | 20.2         | 47,865                                    | 19.6         | 49,969                                    | 16.5         |
| <b>Total</b>            | <b>303,439</b>                            | <b>100.0</b> | <b>243,742</b>                            | <b>100.0</b> | <b>302,672</b>                            | <b>100.0</b> |

*Note:* During the Track Record Period, other countries included Hong Kong, El Salvador, Cyprus, Peru, Singapore, Spain, Japan, Malaysia, Argentina, Pakistan, Colombia, Philippines, Thailand, Paraguay, Caribbean, the PRC, Uruguay, Portugal, Taiwan, Norway, South Korea, Israel, Sweden, Greece, Venezuela, India, South Africa, Bangladesh, Ireland, Turkey, Indonesia, Netherlands, Italy, Canada, Mexico and Bolivia.


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### OUR OWN BRAND

During the Track Record Period, we created and developed our own brand, namely Dodge and Swerve. We commenced the retail sale of men’s casual footwear and women’s casual footwear on a trial basis in April 2014. We sold our products mostly over the internet, generating sales of approximately HK\$20,000 during April to September 2014. As we decided to focus our resources on the provision of our comprehensive footwear design and development, production management and logistics management service, we temporarily ceased the development of Dodge and Swerve brand in September 2014.

Further, in 2014, we entered into a trademark licence agreement with Peishida, a company owned as to 60% by Mr. Fang, the former director, legal representative and general manager of Tin Da and as to 40% by an Independent Third Party. Pursuant to the said trademark licence agreement and a letter of confirmation executed by the then shareholders of Peishida dated 29 May 2015, we granted to Peishida a non-exclusive licence to use the trademarks *DS*, *Dodge&Swerve* and  for manufacturing and sale of footwear for a period from 1 March 2014 to 30 September 2014 in return for a total royalty of RMB5,000. Such company was dissolved in February 2015. Please also see the section headed “Connected transactions – Discontinued connected transactions – Trademark licence agreement between Ever Smart and Peishida” in this [REDACTED].

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### CUSTOMERS

#### Our global customer portfolio

Over the years of our operations since 2009, we have built a diverse global customer portfolio comprising mainly international wholesalers and retailers which are brand owners and/or licensees of formal and casual footwear. During the Track Record Period, almost all of our footwear was exported overseas with shipment destinations covering more than 30 countries including Australia, United Kingdom, Chile, New Zealand, United Arab Emirates, the US and Russia. Sales to overseas customers accounted for approximately 98.8%, 97.7% and 98.5% of our revenue for the three years ended 31 December 2015, respectively. The following table sets out some of our major customers during the Track Record Period and up to the Latest Practicable Date:

| Customers                       | Background  | Brands for which we provided footwear   | Approximate length of business relationship with our Group (months) |
|---------------------------------|---|---|---|
| Wolverine World Wide, Inc       | US based global marketer of branded footwear whose shares are listed on the New York Stock Exchange | Hush Puppies<br>Soft Style  | 84  |
| SportsDirect.com Retail Limited | A subsidiary of a UK based sports retailer whose shares are listed on the London Stock Exchange     | Giorgio<br>Miss Fiori<br>Kangol<br>Firetrap                                   | 29  |
| Brand Collective Pty Ltd        | An Australia based company which unites lifestyle brands across apparel, footwear and accessories   | Clarks (Australia only)<br>Hush Puppies (Australia only)<br>Grosby<br>Gro Shu | 18  |

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| <b>Customers</b>         | <b>Background</b>  | <b>Brands for which we provided footwear</b> | <b>Approximate length of business relationship with our Group (months)</b> |
|--------------------------|--|--|--|
| Target Australia Pty Ltd | A department store chain in Australia offering products including fashionable clothing, footwear and accessories, and a subsidiary of a company listed on the Australian Securities Exchange | Target                                       | 36   |
| Forus S.A.               | A branded footwear wholesaler and retailer based in South America whose shares are listed on Santiago Stock Exchange   | Hush Puppies<br>Rockford<br>Calpany          | 76   |
| P.T. Transmarco          | A retail group engaged in the distribution of multiple international branded footwear based in Singapore, Malaysia and Indonesia   | Hush Puppies                                 | 84   |

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### Our customer base

We have established a customer base of 45, 39 and 39 customers for the three years ended 31 December 2015, respectively. The decrease in the number of customers from the year ended 31 December 2013 to the year ended 31 December 2014 was primarily due to (a) the cessation of business relationship with certain customers of Alliance (which were not granted any preferential term in pricing, settlement or otherwise by our Group as compared to other independent customers and the sales to which accounted for, in aggregate, approximately 1.9%, nil and nil of our total revenue for the three years ended 31 December 2015, respectively) resulting from our decision to terminate our cooperation with Mr. Adam Rogers and Mr. Hobart Ryan James in 2014 as the business performance of Alliance did not meet our expectations where Alliance experienced (i) a decrease in revenue of approximately 73.6% for the year ended 31 December 2013 as compared to the previous year; and (ii) a change from net profit for the year ended 31 December 2012 to net loss for the year ended 31 December 2013 (please refer to the section headed “History, Reorganisation and corporate structure – Corporate history – Alliance” in this [REDACTED] for further information on Alliance and our cooperation with Mr. Adam Rogers and Mr. Hobart Ryan James); and (b) our decision to terminate business relationship with 5 customers with low profit during the year ended 31 December 2013 (the sales to which accounted for, in aggregate, approximately 2.7% of our total revenue for the year ended 31 December 2013). Our Group did not terminate business relationship with any customer due to low profit during the two years ended 31 December 2015. During the Track Record Period and up to the Latest Practicable Date, our Group terminated business relationship with 11 recurring customers (being customers which made revenue contribution to our Group in the previous financial year) comprising (a) a Russian customer in view of its increasing credit risk resulting from the abrupt devaluation of Ruble and economic instability in Russia; (b) 4 customers of Alliance resulting from our decision to terminate our cooperation with Mr. Adam Rogers and Mr. Hobart Ryan James as mentioned above; (c) 4 customers with low profit as our sales to these customers and our gross profit generated therefrom accounted for approximately 2.1% and 1.2% of our total revenue and gross profit respectively for the year ended 31 December 2013; and (d) 2 customers which failed to provide renewal of the relevant footwear brand licences.

### *Retention of customers*

Since the year ended 31 December 2014, our Group has been successfully retaining a majority of our customers. The table below sets out the number of our recurring customers (being customers which made revenue contribution to our Group in the previous financial year) for the year ended 31 December 2014 and the year ended 31 December 2015 and their respective revenue contribution:

|                               | For the year ended<br>31 December<br>2014 | As a<br>percentage of<br>total number<br>of customers<br>for the year<br>ended<br>31 December<br>2013 | For the year ended<br>31 December<br>2015 | As a<br>percentage of<br>total number<br>of customers<br>for the year<br>ended<br>31 December<br>2014 |
|-------------------------------|---|---|---|---|
| Number of recurring customers | 31  | 68.9%   | 27  | 69.2%   |



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|   | For the year ended<br>31 December<br>2014<br><i>HK\$ million</i> | As a<br>percentage of<br>total revenue<br>for the same<br>year | For the year ended<br>31 December<br>2015<br><i>HK\$ million</i> | As a<br>percentage of<br>total revenue<br>for the same<br>year |
|---|--|--|--|--|
| Revenue attributable to recurring customers | 215.2  | 88.3%  | 230.9  | 76.3%  |

Our Directors attribute the high retention rate of recurring customers and the significant revenue attributable to our recurring customers as a percentage of our Group’s total revenue to our Group’s capability in providing satisfactory products and services to our customers.

### *Long established business relationship with our customers*

As at the Latest Practicable Date, we have established business relationship with our existing customers for the length of 11 to 84 months. Approximately 80% of our recurring customers for the year ended 31 December 2015 have established more than 48 months of business relationship with our Group. We have established approximately 18, 18, 36, 66 and 76 months of business relationship with our five largest customers for the year ended 31 December 2015, respectively, as at the Latest Practicable Date. Our Directors believe that the long business relationship we established with our recurring customers and major customers are good testaments of the sustainability of our Group’s business.

### *Development of new customers*

Our Group has been striving to expand our customer base and successfully developed new customers during the Track Record Period. The table below sets out the number of our new customers (being customers who have not made any revenue contribution to our Group in the previous financial year) for the two years ended 31 December 2015 and their respective revenue contribution:

|                         | For the year ended<br>31 December<br>2013 | As a<br>percentage<br>of total<br>number of<br>customers<br>for the same<br>year | For the year ended<br>31 December<br>2014 | As a<br>percentage<br>of total<br>number of<br>customers<br>for the same<br>year | For the year ended<br>31 December<br>2015 | As a<br>percentage<br>of total<br>number of<br>customers<br>for the same<br>year |
|-------------------------|---|--|---|--|---|--|
| Number of new customers | 8   | 17.8%  | 8   | 20.5%  | 12  | 30.8%  |

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|                                       | For the year<br>ended<br>31 December<br>2013<br><i>HK\$ million</i> | As a<br>percentage<br>of total<br>revenue for<br>the same<br>year | For the year<br>ended<br>31 December<br>2014<br><i>HK\$ million</i> | As a<br>percentage<br>of total<br>revenue for<br>the same<br>year | For the<br>year ended<br>31 December<br>2015<br><i>HK\$ million</i> | As a<br>percentage<br>of total<br>revenue for<br>the same<br>year |
|---------------------------------------|---|---|---|---|---|---|
| Revenue attributable to new customers | 6.5   | 2.1%  | 28.6  | 11.7%   | 71.7  | 23.7%   |

During the two years ended 31 December 2015 and up to the Latest Practicable Date, we were able to solicit new customers including SportsDirect.com Retail Limited and Brand Collective Pty Ltd (whose respective background is set out in the paragraph headed “Customers – Our global customer portfolio” in this section) as well as other international branded wholesalers, retailers, importers and trading companies located in various countries including Australia, Argentina, Israel, Spain, India, Indonesia, Mexico, South Korea and Bolivia. One of our new customers for the year ended 31 December 2014 included in the table above represented retail sales of footwear under our own brand Dodge and Swerve on a trial basis during April to September 2014 which contributed revenue of approximately HK\$20,000 (please refer to the paragraph headed “Our own brand” in this section for details).

The addition of new customers and the increase in the revenue attributable to the new customers as a percentage of our Group’s total revenue during the Track Record Period demonstrated our Group’s capability in developing new customers and the success in our strategy to develop new customers through business referrals by existing customers and business network.

### *Diversification of our customer base in developed countries*

We strategically focus on expanding our sales to international branded customers and diversifying our customer base in developed countries such as Australia, United Kingdom, New Zealand, United Arab Emirates and the US. Sales to customers with shipment destinations in such countries increased from (i) approximately HK\$128.2 million for the year ended 31 December 2013 to approximately HK\$169.9 million for the year ended 31 December 2014, representing an increase of approximately 32.5%; and (ii) approximately HK\$169.9 million for the year ended 31 December 2014 to approximately HK\$223.4 million for the year ended 31 December 2015, representing an increase of approximately 31.5%.

According to Frost & Sullivan, global footwear consumption is likely to develop steadily with moderate growth in the future. Moreover, there is potential growth for footwear markets in our major export countries including Australia, United Kingdom, Chile, New Zealand and the US. Please refer to the section headed “Industry overview – Overview of global footwear market – Footwear import statistics of selected countries and their respective growth potential” in this [REDACTED] for further information. Sales to customers with shipment destinations in these five countries accounted for approximately 44.3%, 70.6% and 77.1%, respectively, of our total revenue during the Track Record Period. Our Directors believe that by leveraging our experienced management team with international and

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extensive industry exposure, our close relationship with reliable footwear suppliers, our comprehensive footwear design and development, production management and logistics management service as well as our stringent quality assurance and control measures, our Group will be able to maintain our competitiveness and capture the potential demand for footwear.

### **Our five largest customers**

Sales to our five largest customers amounted to approximately HK\$241.0 million, HK\$162.9 million and HK\$229.6 million, respectively, which accounted for approximately 79.4%, 66.8% and 75.9% of our total revenue, respectively, for the three years ended 31 December 2015. Sales to our largest customer amounted to approximately HK\$95.0 million, HK\$79.5 million and HK\$92.3 million, respectively, which accounted for approximately 31.3%, 32.6% and 30.5% of our total revenue, respectively, for the three years ended 31 December 2015. Among our five largest customers for the three years ended 31 December 2015, 3, 3 and 3, respectively, were recurring five largest customers (i.e. being our five largest customers for two consecutive years).

In early 2014, we decided to terminate the business relationship with a wholesaler of children’s casual footwear in Russia, being our largest customer for the year ended 31 December 2013, in view of its increasing credit risk resulting from the abrupt devaluation of Ruble and economic instability in Russia. During the two years ended 31 December 2014, sales to this Russian customer amounted to approximately HK\$95.0 million and HK\$1.3 million, respectively, whilst gross profit generated from sales to this customer amounted to approximately HK\$11.7 million and HK\$32,000, respectively. Our Directors believe that had our Group continued our business relationship with this Russian customer, our Group might be exposed to further risks considering (i) the deterioration of the Russian economy since 2014 as, according to Frost & Sullivan, the nominal GDP of Russia had declined from approximately USD2.08 trillion in 2013 to approximately USD1.86 trillion in 2014 with further forecasted decrease to approximately USD1.24 trillion in 2015; and (ii) Russia having been sanctioned by the U.S. government, the EU and the Australian government since March 2014.

Despite the termination of business relationship with the Russian customer in early 2014 and the decrease in the number of customers during 2014, we were able to (i) expand our sales to customers in developed countries as described in the paragraph headed “Diversification of our customer base in developed countries” in this section; (ii) achieve an increase in our gross profit margin and normalised profit (without taking into account the non-recurring [REDACTED] expenses) over the Track Record Period (please refer to the section headed “Financial information – Discussion of selected components of our results of operations” in this [REDACTED] for further details); and (iii) successfully manage our credit risk from customers as we did not record any impairment on trade and bills receivables during the Track Record Period.

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The background of our five largest customers during the Track Record Period and the length of business relationship we had maintained with these customers up to the Latest Practicable Date are set out below:

| <b>Customers</b>                       | <b>Background</b>   | <b>Approximate<br/>length of<br/>business<br/>relationship with<br/>our Group<br/>(months)</b> |
|--|---|--|
| Antilopa Pro Limited Liability Company | A wholesaler of children’s casual footwear in Russia.   | 19   |
| Pacific Brands Holdings Pty Ltd        | An Australian consumer products company that owns a portfolio of iconic brands and is a subsidiary of a company whose shares are listed on the Australian Securities Exchange.                | 70   |
| P.T. Transmarco                        | A retail group engaged in the distribution of multiple international branded footwear based in Singapore, Malaysia and Indonesia.   | 84   |
| Wolverine World Wide, Inc              | US based global marketer of branded footwear whose shares are listed on the New York Stock Exchange.  | 84   |
| Forus S.A.                             | A branded footwear wholesaler and retailer based in South America whose shares are listed on Santiago Stock Exchange.   | 76   |
| Customer A                             | UK based fashion retailer offering quality clothing and accessories whose shares are listed on the London Stock Exchange.   | 66   |
| Target Australia Pty Ltd               | A department store chain in Australia offering products including fashionable clothing, footwear and accessories, and a subsidiary of a company listed on the Australian Securities Exchange. | 36   |
| Fos International Ltd                  | A footwear exporter and wholesaler located in South Korea.  | 18   |
| Brand Collective Pty Ltd               | An Australia based company which unites lifestyle brands across apparel, footwear and accessories.  | 18   |

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During the Track Record Period, we granted credit period to our customers ranging from 7 to 90 days. During the Track Record Period, apart from certain customers who agreed with us to make prepayment in respect of their purchases, a Russian customer was required by us to make a prepayment of 30% of sales amount before shipment in view of its increasing credit risk. Payments are usually settled through telegraphic transfers or by letter of credit.

None of our Directors, their respective associates, or any of our Shareholders who owns more than 5.0% of the issued share capital of our Company, had any interest in any of our five largest customers during the three years ended 31 December 2015. Our Directors confirm that our five largest customers during the Track Record Period are Independent Third Parties.

### **Salient features of a typical sales transaction**

During the Track Record Period, we did not enter into any long-term agreement with our customers, which our Directors believe is in line with the normal practice in the footwear industry. The transactions with our customers are effected by way of purchase orders placed by our customers with us and then we confirm the purchase by issuing a sales confirmation to our customers. The salient terms of a sales transaction are set out below:

- Product description: including the product designs and specifications, materials to be used and sizes.
- Quantity of the order: quantity of each type of footwear and the total volume of the order.
- Pricing: unit price of footwear and the total amount of the order.
- Delivery terms: date of delivery. The usual logistics terms are FOB or CIF. The risk in and title to the products are passed to our customers on boarding of our products at the shipment port under both FOB and CIF.
- Payment terms: we grant our customers credit period ranging from 7 to 90 days.

When we determine the length of the credit period to be granted to new customers, we would usually take into account the scale of operations of the new customer, its overall profile based on public sources and industry intelligence and country risk.

### **Cooperation agreement with an individual independent contractor**

Since 2012, we have entered into a service agreement with an individual independent contractor who has over 10 years of experience in the footwear industry, of which about 9 years were gained at working in one of our major customers. Such individual independent contractor was mainly responsible for communication and assisting in maintenance of business relationship with three of our major customers during the Track Record Period, being international wholesalers and/or retailers which are footwear brand owners and/or licensees based in South America, South East Asia and the United States respectively. Our

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Group has established business relationship with these three customers before the individual independent contractor joined us in March 2012. Nevertheless, as Mr. KW Ho, our chairman, chief executive officer and an executive Director, was the only person who was primarily responsible for the sales activities of our Group at that time, we decided to engage the individual independent contractor in order to enable our Group to reallocate our resources in exploring new customers and developing business opportunities. Given that the individual independent contractor, being an English speaker having good acquaintance with these three customers gained from past working experience in one of our major customers, could communicate with such customers effectively and provide our Group with knowledge regarding branded footwear they ordered and may order, we considered that the individual independent contractor could assist our Group in maintaining good business relationship with and gaining business from these three customers. The foregoing arrangement was not made at the request of these three customers. Our Group directly entered into sales transactions with and received payment from these three customers. We adopt a cost-plus pricing policy with these three customers which is same as our pricing policy with other customers. During the Track Record Period, revenue from these three customers served by the individual independent contractor was approximately HK\$59.0 million, HK\$54.5 million and HK\$58.7 million, respectively. The service agreement is in effect until it is terminated by such individual independent contractor or us. We shall pay a fixed monthly fee with reference to the then prevailing market terms of remunerations payable to business relationship managerial personnel in the footwear industry with similar job duties, and a discretionary bonus for the services provided by such individual independent contractor based on our Group's financial performance and the independent contractor's overall performance in the preceding year. Our Group paid fixed fees of approximately HK\$464,000, HK\$603,000, HK\$650,000 and HK\$650,000, respectively, for the four years ended 31 December 2015 to such individual independent contractor. In addition, our Group paid discretionary bonuses of approximately HK\$146,000, HK\$155,000, HK\$80,000 and nil, respectively, for the four years ended 31 December 2015 to such individual independent contractor. No discretionary bonus was paid to the individual independent contractor for the year ended 31 December 2015 since Mr. Tan, our general manager who joined our Group in October 2014 responsible for the overall management, sales and merchandising of footwear and customer relationship of our Group, gradually shares the workload of the individual independent contractor. Our Directors also consider that it is not uncommon in the footwear design and development, production management and logistics management service industry to engage independent contractors, who have established good relationship with customers, to maintain business relationship with customers. After considering the above, our Sole Sponsor and our Directors are of the view that the services provided by the individual independent contractor enable our Group to strengthen our long term business relationship with these three major customers and to maintain and develop our partnerships with them which add value to our business. Notwithstanding the above, as Mr. Tan has gradually taken up most of the duties and responsibilities of the individual independent contractor, we had therefore terminated the service of the individual independent contractor by notice on 11 May 2016 according to the terms of the service agreement.

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### **Measures for ensuring that our customers are brand owners and duly authorised licensees**

We have taken stringent measures to ensure that our customers are brand owners or licensees duly authorised or have obtained the necessary licences for using the brands for which we are engaged to provide footwear before accepting the purchase orders. For all new customers, we will obtain copy of, among other things, the relevant trademark certificates, licence agreements and authorisation letters. If the required documents are not provided by our customers, we will verify the ownership of brands by checking and obtaining information from websites of the relevant government authorities, if available. For all existing customers, we will collect documents and information regarding renewal of licence and licence of all new brands. Information collected and obtained will be stored in our business management system, which information is accessible by our management and the relevant staff. We maintain a manual control list containing information on expiry date of licences and authorisation letters of each brand for each customer, which will be updated and reviewed on a monthly basis. We will only process customers’ purchase orders and manufacturing orders to our footwear suppliers when we are satisfied that our customers possess the necessary ownership or authorisation to use the brands for footwear production and/or distribution.

### **Supply chain finance program**

During the Track Record Period and up to the Latest Practicable Date, as invited by three of our customers, namely Brand Collective Pty Ltd, Pacific Brands Holdings Pty Ltd and Target Australia Pty Ltd., our Group joined a supply chain finance program operated by a global technology and solutions provider headquartered in Atlanta, the US which is an Independent Third Party (the “**Program Provider**”).

Under the supply chain finance program, these customers initiate the financing arrangement by uploading information of the approved invoices for their footwear purchases on an online system of the Program Provider accessible at the website of the Program Provider. We will be notified and have full visibility of the approved invoices on the online system. We have the option to transfer any approved invoice for early payment or wait until they are due for payment. Financial institutions, which are members of the supply chain finance program, that accept our request will provide to us the amount of the approved invoice that we have transferred less a fee charged by such financial institutions and the Program Provider. At the maturity date of the approved invoices, these customers will pay the amount under the approved invoices (i) to the relevant financial institutions regarding approved invoices that we have transferred; or (ii) to us regarding approved invoices that we have not transferred. By participating in this supply chain finance program, we gain the flexibility to obtain early payment of outstanding receivables, while we understand that our customers may, among other things, gain working capital improvement, standardise payment terms, improve accounts payable efficiency and reduce administrative costs. Our Directors confirm that the financial arrangement under the supply chain finance program is one of the main financing approaches adopted by footwear design and development, production management and logistics management service providers.



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For the three years ended 31 December 2015, we have transferred invoices for a total payment obligation of our customers of nil, nil and approximately USD4.1 million (equivalent to approximately HK\$32.0 million), respectively, to an Australian bank and paid total fees of nil, nil and approximately USD11,000 (equivalent to approximately HK\$86,000), respectively, pursuant to this supply chain finance program. Under the supply chain finance program, the fee we are required to pay to (i) the financial institutions for accepting the transfer of approved invoices; and (ii) the Program Provider for using its online system is a lump sum fee charged based on the amount of transferred invoice, interest rate and financing spread (which is determined by financial institutions and based on the credit worthiness of the relevant footwear customer). The amount of the lump sum fee to be paid by us for each approved invoice is quoted on the online system. However, information regarding the proportion of the lump sum fee actually charged by the relevant financial institution and the Program Provider is not available to the user of the supply chain finance program.

Our Group will select the invoices to be transferred and utilise the supply chain finance program according to our cash flow requirements. Our Group will review our cash flow status on a weekly basis, and estimate payment to be made and received in two weeks' time. Where there are needs in cash and invoices are available for transfer, we will utilise the supply chain finance program as the finance costs are usually lower than those for trust receipt loans. Our Group intends to continue to utilise the supply chain finance program after the [REDACTED].

The Program Provider has confirmed that under the supply chain finance program and the agreement thereof, after the payment obligation of our customer has been duly transferred to a financial institution or its nominee and we have received the amount of the approved invoice that we have transferred less the fee charged by such financial institution and the Program Provider for early payment, (i) the risk relating to the default in making payment by the relevant customer shall be passed to the financial institution; and (ii) in the event that the customer subsequently fails to pay the amount on the maturity date specified in the approved invoice, the financial institution shall recover the default amount from the customer only, but has no recourse to us, our Shareholders and/or associates.

Under the supply chain finance program, our Group could transfer the receivables arising from a sales invoice before due date with the payment of a finance fee on the invoice amount charged by the financial institutions and the Program Provider. Our Group does not bear the default risk of the customers and the relevant trade receivables are de-recognised once the invoices are transferred, at which time, our Group has transferred to the relevant financial institution the contractual rights to receive the cash flows of the trade receivables and substantially all the risks and rewards of the ownership of trade receivables. Our Directors consider that there is no liability exposure to our Group under the supply chain finance program.

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### SUSTAINABLE GROWTH OF THE BUSINESS OF OUR GROUP

#### Development of our customer base

Our Directors believe that our high retention rate of recurring customers, long established business relationship with our customers as well as our success in developing new customers and diversifying our customer base in developed countries, among others, demonstrated our capability in achieving sustainable business growth going forward. Please refer to the paragraph headed “Customers – Our customer base” in this section for further details.

#### Sensitivity and breakeven analysis

Our cost of sales mainly comprises the purchase cost from our footwear suppliers. For the three years ended 31 December 2015, purchase cost from our footwear suppliers amounted to approximately HK\$253.2 million, HK\$205.2 million and HK\$252.6 million, respectively, representing approximately 94.4%, 96.2% and 96.6%, respectively, of our cost of sales.

The following sensitivity analysis illustrates the impact of hypothetical changes, based on historical fluctuations during the Track Record Period, in our purchase cost from footwear suppliers for the years indicated.

|  | 31 December 2013                            |   | For the year ended<br>31 December 2014      |   | 31 December 2015                            |   |
|--|---|---|---|---|---|---|
|  | Corresponding<br>increase<br>(decrease)     | % change<br>in profit<br>before<br>taxation | Corresponding<br>increase<br>(decrease)     | % change<br>in profit<br>before<br>taxation | Corresponding<br>increase<br>(decrease)     | % change<br>in profit<br>before<br>taxation |
| % change in<br>purchase cost<br>from footwear<br>suppliers | in profit<br>before<br>taxation<br>HK\$'000 | %   | in profit<br>before<br>taxation<br>HK\$'000 | %   | in profit<br>before<br>taxation<br>HK\$'000 | %   |
| 10%  | (25,324)                                    | (195.6%)                                    | (20,524)                                    | (180.8%)                                    | (25,264)                                    | (272%)                                      |
| 5%   | (12,662)                                    | (97.8%)                                     | (10,262)                                    | (90.4%)                                     | (12,632)                                    | (136%)                                      |
| (5%)   | 12,662                                      | 97.8%                                       | 10,262                                      | 90.4%                                       | 12,632                                      | 136%  |
| (10%)  | 25,324                                      | 195.6%                                      | 20,524                                      | 180.8%                                      | 25,264                                      | 272%  |

The sensitivity analysis above assumes that only one variable changes while other variables remain unchanged.

For illustrative purposes only, if the purchase cost had increased by approximately 4.0% and 4.1% and 2.5% for the three years ended 31 December 2015 respectively, our Group’s net profit for the respective years would have been nil, assuming all other variables remain unchanged.

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### **Our key competitive advantages**

The key competitive advantages of our Group according to the Frost & Sullivan Report are set out in the section headed “Industry overview – Analysis of China’s footwear design and development, production management and logistics management service industry – Key competitive advantages of our Group” in this [REDACTED]. Below is further illustration of such competitive advantages from our Directors’ perspective:

#### **1. Good partnership with brand owners**

Our global customer portfolio comprises mainly international wholesalers and retailers which are brand owners and/or licensees of formal and casual footwear. The long business relationship we have established with our recurring customers and major customers as well as our ability in developing new customers (please refer to the paragraphs headed “Customers – Our customer base – Long established business relationship with our customers” and “– Development of new customers” in this section for further details) provide our Group with a solid leverage for future growth. During the two years ended 31 December 2015, we commenced to supply footwear under 7 and 15 new brands, respectively, for both our existing and new customers, generating revenue of approximately HK\$20.6 million and HK\$51.8 million, respectively, representing approximately 8.4% and 17.1% of our total revenue for the respective year.

#### **2. Stable business relationship with suppliers**

During the Track Record Period and up to the Latest Practicable Date, we had maintained business relationship with 70 footwear suppliers. Up to the Latest Practicable Date, we had established approximately 3 to 7 years of relationship with our five largest footwear suppliers for the Track Record Period. Our close and stable business relationship with various reliable footwear suppliers help us to provide our customers with high quality footwear that enables us to retain and attract our international branded customers, thus maintaining our future growth.

#### **3. Outstanding reputation**

Our Directors believe that maintaining products with high quality is one of the major factors in building and maintaining our reputation among footwear suppliers and customers. During the Track Record Period, our Group experienced a decline in the amounts of claims paid to our customers that were primarily attributable to product quality defects and incorrect packaging reworks. For the three years ended 31 December 2015, we had claims paid to our customers of approximately HK\$2.1 million, HK\$1.1 million and HK\$1.7 million respectively, which accounted for approximately 0.7%, 0.5% and 0.6% of our total revenue for the respective years. Leveraging our good reputation, we believe that our business can continue to develop and flourish.

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### **4. Comprehensive value added services**

By engaging our comprehensive footwear design and development, production management and logistics management service, our customers can rely on us to fulfill their needs for a full spectrum services, ranging from footwear design, selection of suitable footwear suppliers, production management to finished footwear logistics management. Our comprehensive service, which adds value to our customers by offering them with one stop services for design support, manufacturing quality control and logistics management in a cost effective and timely manner, helps our Group in building a diverse global customer portfolio. During the Track Record Period, we supplied footwear to our customers with shipment destinations covering more than 30 countries including Australia, United Kingdom, Chile, New Zealand, United Arab Emirates and the US.

### **5. Good product design and development capabilities**

Product design and development forms a major part of our comprehensive footwear design and development, production management and logistics management service. Our Group’s design team comprises seven members who possess approximately 4 to 17 years of design and footwear related working experience. Our strong design and development capabilities, among others, differentiate us from over 500 service providers in the tier 2 group of footwear design and development, production management and logistics management service providers in China and help us to become one of the three largest footwear design and development, production management and logistics management service providers in the tier 2 group in China in 2014 in terms of revenue. Please refer to the section headed “Industry overview – Analysis of China’s footwear design and development, production management and logistics management service industry – Competitive landscape” for further details.

Since our commencement of business in 2009, our Group or, in respect of the period prior to the Track Record Period, the group comprising the then holding company and its subsidiaries engaged in the footwear business has recorded profit attributable to owner(s) of the company for each financial year. Taking into account our high retention rate of recurring customers, long established business relationship with our customers as well as our success in developing new customers and diversifying our customer base in developed countries as referred to in the paragraph headed “Customers – Our customer base” in this section, our Sole Sponsor and our Directors consider that our Group has demonstrated the capability to attain sustainable growth of our business, and our competitive advantages would enable us to compete with other players in the footwear design and development, production management and logistics management service industry and maintain our profitability.

## **SALES AND MARKETING**

Mr. KW Ho, Mr. Tan and Mr. Shek are primarily responsible for the sales activities of our Group. We solicit new customers through business referrals by existing customers and business network. We have not conducted any marketing, promotion and advertisement campaign nor provided any sales incentive or discount to our customers during the Track Record Period.

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We generally conduct business with our customers directly. Our business model does not involve any distributorship, franchising or consignment. We work closely and directly with our customers to understand their needs and then provide our comprehensive footwear design and development, production management and logistics management service to satisfy their preferences. We believe that this operation model enables us to build and maintain solid business cohesion with our customers and avoid additional costs incurred by selling through intermediaries.

Our Directors consider that it is important for us to maintain a diverse customer base and to expand our business. Thus, we proactively approach potential customers for business opportunities through business referrals and business network. We target to develop business relationship with reputable customers as, based on our experience, these customers tend to purchase high quality footwear that we can offer and are able to afford higher price for quality. Going forward, we will enhance our marketing efforts through (i) frequently visiting our existing customers to strengthen our business relationship; (ii) exploring business opportunities by approaching potential customers through business referrals by existing customers and business network; (iii) participating in global sales conferences of our major customers which are footwear brand owners to meet their licensees in order to create a higher profile and explore new business opportunities; and (iv) enhancing our corporate image by participating in major footwear trade shows and fairs internationally.

## SUPPLIERS

Our suppliers are mainly footwear suppliers. Please refer to the paragraph headed “A. Pre-production – 2. Selection of footwear suppliers” in this section for information about the arrangements between our Group and our footwear suppliers.

We have maintained good business relationships with our major suppliers. For the three years ended 31 December 2015, we had purchased from 52, 35 and 36 footwear suppliers, respectively. The decrease in the number of footwear suppliers over the two years ended 31 December 2014 was primarily due to (i) the cessation of business relationship with footwear suppliers which were engaged by us to supply footwear to a Russian customer, which was our Group’s largest customer for the year ended 31 December 2013, and certain customers of Alliance resulting from the termination of our cooperation with Mr. Adam Rogers and Mr. Hobart Ryan James (please refer to the section headed “History, Reorganisation and corporate structure – Corporate history – Alliance” in this [REDACTED] for further information on Alliance and our cooperation with Mr. Adam Rogers and Mr. Hobart Ryan James); and (ii) our decision to terminate business relationship with certain footwear suppliers which were not able to satisfy our requirements and/or those of our customers. We have established reliable and long term relationship with a number of quality footwear suppliers. During the three years ended 31 December 2015, we had 37, 26 and 25 recurring footwear suppliers (i.e., being our footwear suppliers for two consecutive years), respectively, representing approximately 71.2%, 74.3% and 69.4%, respectively, of the total number of our footwear suppliers during the same respective years.

Up to the Latest Practicable Date, we had established a relationship of approximately 3 to 7 years with our five largest footwear suppliers for the Track Record Period. As at the Latest Practicable Date, almost all of our footwear suppliers were located in the PRC. Our

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purchases from our five largest suppliers (all being footwear suppliers) amounted to approximately HK\$201.0 million, HK\$156.8 million and HK\$194.0 million, respectively, which accounted for approximately 79.4%, 76.4% and 76.8% of our total purchases, respectively, for the three years ended 31 December 2015. Our purchases from our largest supplier amounted to approximately HK\$124.1 million, HK\$120.7 million and HK\$129.3 million, respectively, which accounted for approximately 49.0%, 58.8% and 51.2% of our total purchases, respectively, for the three years ended 31 December 2015. We commenced our business relationship with our largest supplier during the Track Record Period since 2009. Our Directors consider that such established business relationship facilitates our Group in supplying our customers with footwear of consistently high quality. In the event that any of our major suppliers ceases its supply to us, we would extend our purchases to other existing suppliers and new suppliers. Our Directors do not foresee any difficulty in identifying alternative suppliers which can satisfy our requirements.

During the Track Record Period, our suppliers (including our five largest suppliers) usually offered a credit period from 20 to 45 days to us. Payments are generally settled through telegraphic transfers.

During the Track Record Period, our credit terms offered to certain customers are longer than those granted by the suppliers. As at 31 December 2015, we offered credit terms over 45 days to four of our customers. Sales to these four customers accounted for approximately 53.4% of our sales for the year ended 31 December 2015. Two of these four customers have joined the supply chain finance program as referred to in the paragraph headed “Customers – Supply chain finance program” in this section. It is our Group’s general practice to utilise trust receipt loans and the supply chain finance program to manage our cash flow requirements.

None of our Directors, their respective associates or any of our Shareholders who owns more than 5.0% of the issued share capital of our Company, had any interest in any of our five largest suppliers during the three years ended 31 December 2015. Our Directors confirm that our five largest suppliers during the Track Record Period are Independent Third Parties.

### **Salient features of a typical purchase transaction**

During the Track Record Period, we did not enter into any long-term agreement with our footwear suppliers, which our Directors believe is in line with the normal practice in the footwear industry. The transactions with our footwear suppliers are effected by way of manufacturing orders placed by us to our footwear suppliers.

The salient terms of a purchase transaction are set out below:

- Product description: including the product designs and specifications, materials to be used and sizes.
- Quantity of the order: quantity of each type of footwear and the total volume of the order.
- Pricing: unit price of footwear and the total amount of the order.



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- Delivery terms: date of delivery. Our footwear suppliers are responsible for the transportation of the footwear to the port of shipment designated by us and loading costs.
- Payment terms: we generally granted a credit period of 20 to 45 days to settle payment to our footwear suppliers. With prior approval of our chief executive officer, we will make prepayment of approximately 30% of purchase amount to (i) our footwear suppliers which need funds for purchasing raw materials; and (ii) when required, some new footwear suppliers. Payments are usually settled through telegraphic transfers.

### PRODUCT RETURNS AND CLAIMS

Under our quality control measures, the finished footwear produced by our footwear suppliers is subject to sample checking by our quality control staff to ensure that the finished footwear can meet our customers’ requirements. We do not have a formal product return policy. Nevertheless, in order to maintain goodwill and business relationships with our customers, we would investigate each incident and satisfy our customers’ requests to the best of our ability.

For the three years ended 31 December 2015, we had claims paid to our customers of approximately HK\$2.1 million, HK\$1.1 million and HK\$1.7 million, respectively. Such claims paid to our customers were primarily attributable to product quality defects and incorrect packaging reworks. In order to maintain good business relationships and to strengthen our customers’ confidence in us, we settle the claims directly with our customers. For the three years ended 31 December 2015, claims received from our footwear suppliers amounted to approximately HK\$1.4 million, HK\$1.6 million and HK\$1.6 million, respectively. Such claims received from our footwear suppliers were mainly due to product quality defects and incorrect packaging reworks of footwear manufactured by our footwear suppliers.

In late 2013, a Russian customer cancelled various purchase orders. During the year ended 31 December 2014, such Russian customer made a payment of approximately HK\$2.7 million to us as an one-off compensation payment for the cancellation of purchase orders after negotiations between both parties. We, in return, paid claims in the aggregate amount of approximately HK\$1.7 million to various footwear suppliers as an one-off compensation payment in relation to the cancellation of the corresponding manufacturing orders.

During the Track Record Period and up to the Latest Practicable Date, we had not received any complaint or claim from our customers in relation to any product liability.

### SEASONALITY

Historically, we often experienced a lower level of sales in the first quarter. For the three years ended 31 December 2015, sales in the first quarter amounted to approximately HK\$59.1 million, HK\$42.9 million and HK\$45.0 million, respectively, which accounted for approximately 19.5%, 17.6% and 14.9%, respectively, of our total sales. The lower level of sales in the first quarter is mainly attributable to the festive season in the PRC during which



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our footwear suppliers generally suspend production for 2 to 4 weeks in the first quarter to celebrate Chinese New Year. Knowing that the first quarter is the festive season in the PRC, our customers will usually reduce purchase orders to our Group with delivery of footwear in the first quarter.

### **INVENTORY**

As we adopt a made-to-order strategy, we only place corresponding manufacturing orders with our footwear suppliers after we receive purchase orders from our customers. It is our policy not to maintain any inventory.

### **SOCIAL RESPONSIBILITY COMPLIANCE REQUIREMENTS**

We are required by some of our major customers to demonstrate a commitment to social responsibility and to comply with their ethical and social responsibility requirements. Such requirements generally include provisions against the use of child and forced labour, work place health and safety, hours of work, compensation, benefits and wages, protocols against discrimination and harassment and abuse. As it is the corporate policy for some of our customers to conduct their business with suppliers in compliance with such standards, our customers may cease to do business with our Group if we fail to comply with such requirements. We perform internal assessment on our footwear suppliers annually to ensure that they comply with the requirements of our customers and our customers may request their own team or third parties to perform the social responsibility compliance assessment. Pursuant to our Group’s internal control policies, we will only place manufacturing orders with our footwear suppliers that have passed our Group’s social responsibility compliance assessment together with the third-party assessment as required by our customers or our customers’ own assessment, if any. Our Directors confirmed that during the Track Record Period and up to the Latest Practicable Date, we had been in compliance in all material respects with the social responsibility requirements of our customers. Our Directors also confirmed that during the Track Record Period and up to the Latest Practicable Date, we had not received any complaints, claims or legal actions from our customers in relation to the compliance with their social responsibility requirements by our Group and our footwear suppliers. To ensure ongoing compliance with these social responsibility requirements, we will assist our footwear suppliers to understand and comply with our customers’ ethical and social compliance standards.

### **BUSINESS MANAGEMENT SYSTEM**

We recognise that an efficient and effective business management system requires the support of a centralised, comprehensive and integrated database management system. To this end, we have retained an independent information technology solution provider to establish a business management system that allows us to systematically store purchase orders, manage and maintain information of customers and suppliers in detail, and record the progress of each stage of production and quality control process. Accessible across our Group, the business management system facilitates the integration and exchange of information among various departments of our Group so as to reduce order processing time, and ensure our adherence to quality control standards at every stage of production and timely delivery of products to customers.

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### COMPETITION

According to Frost & Sullivan, footwear design and development, production management and logistics management service providers can be categorised into three tier groups based on features including their scope of service, total revenue, target footwear sectors and manufacturing capability. Please refer to the section headed “Industry overview – Analysis of China’s footwear design and development, production management and logistics management service industry – Competitive landscape” in this [REDACTED] for further information.

According to Frost & Sullivan, we are in tier 2 group comprising over 500 footwear design and development, production management and logistics management service providers as we possess the following features which are similar to other tier 2 group service providers: (i) in addition to selecting OEMs and sourcing footwear for brand owners and licensees, we offer comprehensive value-added services, such as design and quality control to our customers; (ii) our Group recorded revenue of approximately HK\$303.4 million, HK\$243.7 million and HK\$302.7 million for the three years ended 31 December 2015, respectively, which is within the range of the total annual revenue of HK\$100 million to HK\$500 million of the footwear design and development, production management and logistics management service providers in the tier 2 group; (iii) we target low-end to middle-end footwear sectors with an aim of diversifying our customer base and expanding our scale of operation; and (iv) our Group has established reliable and long-term relationships with a number of quality footwear suppliers despite not having our own manufacturing capability. According to Frost & Sullivan, (i) our Group had a market share, in terms of revenue, of approximately 0.2% of the total revenue of the China footwear design and development, production management and logistics management service providers of approximately HK\$143 billion in 2014; and (ii) our Group was one of the three largest footwear design and development, production management and logistics management service providers in the tier 2 group in China in 2014. Based on the foregoing, our Directors believe that our Group was in the leading position in the tier 2 group of footwear design and development, production management and logistics management service providers in China.

Our Directors consider that competition within the footwear design and development, production management and logistics management service industry is keen and there are numerous competitors operating in different scales which engage in business similar to that of our Group. Apart from facing competition from over 500 footwear design and development, production management and logistics management service providers in tier 2 group, we face competition from other industry peers in (i) tier 1 group which mainly target high-end footwear sector, but may also target middle-end footwear sector to diversify their customer base and expand their scale of operation; and (ii) tier 3 group as they target low-end footwear sector.

However, our Directors believe that a successful company in the business of providing footwear design and development, production management and logistics management service requires product design capabilities, healthy cash flow position for timely payment of production costs to footwear suppliers while granting attractive credit period to customers and strong relationships with reputable footwear suppliers. Notwithstanding that we face competition from over 500 footwear design and development, production management and logistics management service providers in tier 2 group as well as other industry peers in tier 1 and tier 3 groups as described above, our Directors consider that our Group is competitive in the footwear design and development, production management and logistics management service industry in view of the reputation that we have been building over the years of our

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operations since 2009, our good business relationships with our footwear suppliers and our major customers as well as our product quality and pricing. We believe that we also compete on the strength of (i) our experienced management team with international and extensive industry exposure; (ii) our close relationship with reliable footwear suppliers; (iii) comprehensive footwear service we offer which adds value to our customers; and (iv) our stringent quality control measures which ensure we are capable of fulfilling the needs of international and established customers for high quality footwear and services.

### INSURANCE

For our Hong Kong operations, we generally maintain employees’ compensation insurance for all our staff in Hong Kong, private motor car insurance, and medical and accident insurance for our staff where necessary.

For our PRC operations, we maintain private motor car insurance and cargo transportation insurance for our footwear in export transportation when required by our customers. Save as disclosed in the paragraph headed “Legal compliance and proceedings” in this section, we have made contributions to pension insurance, medical insurance, unemployment insurance, occupational injury insurance and maternity insurance for our employees in compliance with the relevant PRC laws and regulations.

We do not usually maintain product liability insurance for our footwear unless our customer specifically requests us to do so. During the Track Record Period, we only maintained product liability insurance for a maximum amount of USD2 million as requested by one of our customers to cover claims that may arise from bodily and property damage arising out of the footwear we supplied to such customer.

We believe that our insurance coverage is adequate for our operations and in line with industry norms in Hong Kong and the PRC. Our Directors confirm that, during the Track Record Period and up to the Latest Practicable Date, we had not received any material third party liability claim relating to our business or our footwear.

### ENVIRONMENTAL PROTECTION

We are subject to national and local environmental laws and regulations in the PRC. As advised by our PRC Legal Advisers, we are not required to obtain any permits or approvals under the applicable environment laws and regulations in the PRC. During the Track Record Period and as at the Latest Practicable Date, we had not been fined for breaching applicable environmental laws and regulations in the PRC. For details of the relevant PRC environmental laws and regulations, please refer to the section headed “Regulatory overview – PRC regulatory overview – 3. Environmental protection” in this [REDACTED].

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### EMPLOYEES

#### Number of staff

The geographical and functional distribution of our full-time employees as at the Latest Practicable Date are as follows:

| Functions                          | Hong Kong office | PRC office |
|------------------------------------|------------------|------------|
| General management                 | 2                | –          |
| Merchandising ( <i>Note</i> )      | 1                | 18         |
| Design and business development    | 4                | 3          |
| Shipping                           | –                | 5          |
| Order processing                   | –                | 5          |
| Quality control                    | –                | 13         |
| Administration and human resources | 1                | 7          |
| Finance                            | 4                | 4          |
| Facilities sourcing                | –                | 1          |
| Total                              | <u>12</u>        | <u>56</u>  |

*Note:* The merchandising staff are not responsible for the sales and marketing activities of our Group.

#### Training and recruitment policy

We believe that the quality of our staff plays an important role in maintaining our operation efficiency. We place emphasis on work experience in the footwear industry in hiring our designers, merchandising staff and quality control staff. In order to recruit, develop and retain talented employees, we offer competitive remuneration packages to our staff, including internal promotion opportunities and performance-based bonus. We enter into standard employment contracts with our staff which contain provisions on intellectual property rights and confidentiality. For the three years ended 31 December 2015, our staff costs amounted to approximately HK\$16.1 million, HK\$15.1 million and HK\$17.9 million, respectively.

#### Staff relation

We recognise the importance of having good relationship with our staff. Our Directors confirm that we had not experienced any significant disputes with our staff or disruption to our operations due to labour disputes, nor had we experienced any difficulties in the recruitment and retention of personnel during the Track Record Period and up to the Latest Practicable Date. Our staff have not formed any union or association.

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### Staff benefits

#### *Hong Kong*

We have participated in the mandatory provident fund prescribed by the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong).

#### *PRC*

In the PRC, our Group has participated in the basic pension insurance, basic medical insurance, unemployment insurance, occupational injury insurance, maternity insurance prescribed by 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 became effective on 1 July 2011, and housing fund prescribed by the Regulations on the Administration of Housing Fund (住房公積金管理條例) which was promulgated and effective on 3 April 1999, as amended on 24 March 2002.

Our Company has conditionally adopted the Share Option Scheme on 11 May 2016 under which certain selected classes of participants (including, among others, full-time employees) may be granted options to subscribe for the Shares. The principal terms of the Share Option Scheme are summarised in the section headed “D. Share Option Scheme” in Appendix IV to this [REDACTED].

### Health and work safety

Our Group strives to safeguard the health and safety of our employees. We have adopted health and safety policies covering prohibition of smoking in workplace, abuse of alcohol and drugs, the identification and prevention of risks and hazards in working area, and actions to be taken on occurrence of accidents or personal injuries. We require our employees to strictly adhere to and comply with such policies, which are set out in our employee handbook. Our Directors confirm that there were no material accidents, health injuries or any non-compliance incidents with relevant health and safety laws and regulations during the Track Record Period and up to the Latest Practicable Date.

### INTELLECTUAL PROPERTY

For details of our registered trademarks, see the section headed “B. Further information about the business of our Group – 2. Intellectual property rights of our Group” in Appendix IV to this [REDACTED].

As at the Latest Practicable Date, we were not involved in any proceedings with regards to, and we had not received notice of any claims of infringement of, any intellectual property rights that may be threatened or pending, in which we may be involved either as a claimant or respondent.

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### PROPERTY

Set out below is a summary of our property interests in Hong Kong and the PRC.

#### Owned property

As at the Latest Practicable Date, we did not own any property.

#### Leased properties

As at the Latest Practicable Date, we leased the following properties in Hong Kong and the PRC from Independent Third Parties:

| Address as shown in the lease   | Current use of the property | Lettable area | Term of current lease   |
|---|-----------------------------|---------------|---|
| 15/F., Block B, Ming Feng Plaza, Kang Le South Road, Houjie Town, Dongguan City, Guangdong, China | Office                      | 1,175 sq.m.   | The lease is for a period from 16 May 2015 to 15 May 2020 at a monthly rent of (i) RMB35,062 from 16 May 2015 to 15 May 2017; (ii) RMB36,815 from 16 May 2017 to 15 May 2019; and (iii) RMB38,656 from 16 May 2019 to 15 May 2020 |
| Unit No. 3, 15th Floor, 909 Cheung Sha Wan Road, Cheung Sha Wan, Kowloon, Hong Kong               | Office                      | 1,759 sq.ft.  | The lease is for a period from 27 April 2015 to 26 April 2017 at a monthly rent of HK\$48,372.50 (exclusive of management and air-conditioning charges, rates and other outgoings)  |

Our Directors confirmed that all of our current leases were negotiated on an arm’s length basis with reference to the prevailing market rates and/or other factors (including location of the property). As at the Latest Practicable Date, save for the non-compliance with (i) Conditions of Sale, occupation permit and deed of mutual covenant in Hong Kong; and (ii) land use restriction in the PRC as set out in the paragraph headed “Legal compliance and proceedings” in this section, we had complied with all the applicable laws in respect of our leased properties in all material respects.

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### **LICENCES AND PERMITS**

Based on the advice of our Hong Kong Legal Advisers and our PRC Legal Advisers, we have obtained all necessary licences, approvals and permits from the relevant governmental authorities for our business operations in Hong Kong and the PRC, respectively.

### **LEGAL COMPLIANCE AND PROCEEDINGS**

As at the Latest Practicable Date, we were not engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim of material importance is known to our Directors to be pending or threatened by or against us, that would have a material adverse effect on our results of operations or financial condition.

Our Directors confirmed that save as disclosed below, we have complied with all applicable laws and regulations in all material respects in Hong Kong and the PRC during the Track Record Period and up to the Latest Practicable Date.

Set out below are details of our non-compliance incidents during the Track Record Period and up to the Latest Practicable Date:



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### Non-compliance with Government lease, deed of mutual covenant and occupation permit in Hong Kong

| Name(s) of entities                    | Particulars of the non-compliance  | Reason(s) of non-compliance  | Remedial action(s)  | Estimated/actual fine/penalty  |
|--|--|--|---|--|
| Ever Smart, D&S, Alliance and Ever Sky | <p>Breach of the land use restriction set out in the Conditions of Sale of Premises 1 and, if there is any illegal structure, breach of section 25(1) of the Buildings Ordinance (Chapter 123 of the Laws of Hong Kong). Ever Smart, as the landlord, used Premises 1 as office during the period from 25 September 2012 to 19 March 2014 where the land use of Premises 1 is restricted to industrial and/or godown purposes.</p> <p>Breach of the land use restriction set out in the occupation permit of Premises 1, which sets out that Premises 1 is restricted to uses as workshop and ancillary accommodation for non-domestic use.</p> <p>Premises 1 is also subject to the deed of mutual covenant which sets out that the building where Premises 1 is located is “industrial building” and that the workshop unit of the said building shall be used for industrial and/or godown purposes only.</p> | <p>The breach was not wilful and was due to the inadvertent oversight of the responsible staff and the absence of timely and professional advice at the material time.</p> | <p>We moved out of Premises 1 in March 2014 and sold Premises 1 to two Independent Third Parties in May 2015.</p> <p>Before we sold Premises 1, we leased out Premises 1 for industrial uses in compliance with the land use restriction set out in the Conditions of Sale and the deed of mutual covenant.</p> <p>By taking into account (i) the historical unit rental price of our current office in the period commencing from January 2013 until March 2014 (which reflects the then market price of office rent had our Group not breached the land use restriction); and (ii) the lettable area of Premises 1, had our Group not breached the land use restriction, we would have incurred additional rent amounting to a total of approximately HK\$352,000 during the Track Record Period.</p> | <p>Under section 40(2) and section 40(6) of the Buildings Ordinance, and if our Group is deemed to have materially changed the use of Premises 1 under section 25 of the Buildings Ordinance by carrying out building works for the erection of an office without giving prior notice to the Building Authority and obtaining its approval or the plan in relation to such building works had been refused by the Building Authority, our Group is liable on conviction to a maximum fine of HK\$100,000 and our Directors are liable on conviction to a maximum fine of HK\$100,000 and maximum imprisonment of two years. Our Directors confirmed that no illegal building works had been carried out in Premises 1 in order to change its permitted usage into office. After seeking advice from our Hong Kong Legal Advisers, our Directors take the view that the risk that our Group will be subject to any liabilities under section 40(2) and section 40(6) of the Buildings Ordinance is extremely remote.</p> <p>According to the relevant Conditions of Sale, the Government is entitled to re-enter and take back possession of Premises 1 and claim damages against the respective owners. Before we sold Premises 1, we had not received any notice of re-entry from the Government in relation to Premises 1.</p> |

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| Name(s) of entities | Particulars of the non-compliance | Reason(s) of non-compliance | Remedial action(s) | Estimated/actual fine/penalty   |
|---------------------|-----------------------------------|-----------------------------|--------------------|---|
|                     |                                   |                             |                    | <p>For the breach of the relevant deed of mutual covenant, the manager of the building could claim against our Group for an injunction restraining the use of Premises 1 as an office. Before we sold Premises 1, no claim had been made against our Group by the manager of the building.</p> <p>As advised by our Hong Kong Legal Advisers, since our Group had sold Premises 1 and no longer uses Premises 1 as our office, the unlawful use in breach of the Conditions of Sale had ceased. Having considered that the breach was not wilful and that our Group had sold Premises 1 and ceased to use Premises 1 as our office and the breaches set out herein were all stopped, based on the experience of our Hong Kong Legal Advisers, the risk of being prosecuted and/or claimed for our Group's previous use of Premises 1 is remote and even if there is any prosecution, the chance of an imprisonment sentence being imposed on our Directors is remote.</p> |

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| Name(s) of entities                    | Particulars of the non-compliance   | Reason(s) of non-compliance  | Remedial action(s)   | Estimated/actual fine/penalty   |
|--|---|--|--|---|
| Ever Smart, D&S, Alliance and Ever Sky | <p>Breach of the land use restriction set out in the relevant Conditions of Sale of Premises 2 and, if there is any illegal structure, breach of section 25(1) of the Buildings Ordinance (Chapter 123 of the Laws of Hong Kong). Ever Smart, as tenant, rented Premises 2 as office since 1 March 2014 where Premises 2 shall be used for industrial and/or godown purposes only.</p> <p>Breach of the land use restriction set out in the occupation permit of Premises 2, which sets out that Premises 2 is restricted to be used as factory and store.</p> <p>Premises 2 is also subject to the deed of mutual covenant which sets out that the building at where Premises 2 is located is “industrial building” and that units of the said building shall be used for industrial purposes.</p> | <p>The breach was not wilful and was due to the inadvertent oversight of the responsible staff and the absence of timely and professional advice at the material time.</p> | <p>We have moved out of Premises 2 and relocated our office in May 2015.</p> <p>By taking into account (i) the historical unit rental price of our current office in the period commencing from March 2014 until May 2015 (which reflects the then market price of office rent had our Group not breached the land use restriction); and (ii) the lettable area of Premises 2, had our Group not breached the land use restriction, we would have incurred additional rent amounting to a total of approximately HK\$423,000 during the Track Record Period.</p> | <p>Under section 40(2) and section 40(6) of the Buildings Ordinance and if our Group is deemed to have materially changed the use of Premises 2 under section 25 of the Buildings Ordinance by carrying out building works for the erection of an office without giving prior notice to the Building Authority and obtaining its approval or the plan in relation to such building works had been refused by the Building Authority, our Group is liable on conviction to a maximum fine of HK\$100,000 and our Directors are liable on conviction to a maximum fine of HK\$100,000 and maximum imprisonment of two years. Our Directors confirmed that no illegal building works had been carried out in Premises 2 in order to change its permitted usage into office. After seeking advice from our Hong Kong Legal Advisers, our Directors take the view that the risk that our Group will be subject to any liabilities under section 40(2) and section 40(6) of the Buildings Ordinance is extremely remote.</p> <p>As advised by our Hong Kong Legal Advisers, the breach was not wilful and our Group had ceased to use Premises 2 as our office and the breaches set out herein were stopped. Based on the experience of our Hong Kong Legal Advisers, the risk of being prosecuted and/or claimed for our Group’s previous use of Premises 2 is remote and even if there is any prosecution, the chance of an imprisonment sentence being imposed on our Directors is remote.</p> |

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## BUSINESS

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Our executive Directors at first believed that Premises 1 and Premises 2 (“**these two Premises**”) could be used partly as office when our Group bought or leased these two Premises, as (i) they noticed that a number of properties in the neighbourhood had been used mainly as offices; and (ii) they had not been particularly advised or reminded by the estate agents or lawyers that these two Premises could not be used as office when our Group was moving into and using these two Premises. Our Group moved from Premises 1 to Premises 2 in March 2014 as our Group intended to (i) expand its business and look for an office with more working space; and (ii) lease Premises 1 to a third party by that time. As confirmed by our Directors, these two Premises had been used partly as office; and partly for certain design and drawing works and in respect of Premises 2, also for storage of the footwear samples of D&S. Our executive Directors had at the material time noted that pursuant to Chapter 5 of the Hong Kong Planning Standards and Guidelines issued by the Planning Department, there was no restriction on the size of an office to be established within an industrial building as long as it is directly related to an industrial operation of the user thereof. As both the design and drawing works and the storage of footwear samples formed a part of successive stage in the industrial process related to the business of our Group, our executive Directors believed that our Group’s usage of these two Premises partly as office should not constitute a breach of the government leases of these two Premises. However, after we ceased the development of Dodge and Swerve brand in September 2014, our Group no longer needed to use Premises 2 for storage purpose.

In the course of our preparation for [REDACTED], our Hong Kong Legal Advisers advised our Group that the use of these two Premises as office by our Group might constitute a non-compliance of the respective land use restrictions of these two Premises. Our Hong Kong Legal Advisers therefore advised our Group to take foolproof measures in dealing with the compliance issue of the government leases. Once our Directors were aware of the aforesaid possible non-compliances, our Group actively sought new premises for relocation, and subsequently moved to our current office in May 2015. After seeking legal advice from our Hong Kong Legal Advisers, our Directors confirmed that our current office premises comply with the relevant land use requirements in Hong Kong.

Given our Group’s non-compliance involving the usage of these two Premises (i) was not intentional; (ii) had been duly rectified by our Group by moving our office to another premises which can be used as office once our Directors were aware of such non-compliance; and (iii) did not involve any dishonesty or fraud on the part of our Directors or senior management and sufficient preventive measures had been taken out by our Group to prevent any recurrence of such non-compliance, the non-compliance should therefore not affect our Directors’ suitability to act as Directors under Rules 5.01 and 5.02 of the GEM Listing Rules, or impugn on their integrity or competence.

For the purpose of ensuring future land use compliances, our Group has adopted certain internal control measures on the purchase and leasing of offices, which are more particularly set out in the paragraph headed “Legal compliance and proceedings – Internal control measures to prevent the recurrence of non-compliance incidents” in this section below.

## BUSINESS

### Non-compliance with contribution of social insurance and housing provident funds in the PRC

| Name(s) of entity(ies) | Particulars of the non-compliance  | Reason(s) of non-compliance   | Remedial action(s)  | Estimated/actual fine/ penalty   |
|------------------------|--|---|---|--|
| Tin Da                 | We did not pay the social insurance fund contributions in full as prescribed under the Social Insurance Law of the PRC (《中華人民共和國社會保險法》) since the date of incorporation of Tin Da (being 3 December 2010) up to July 2015. The amount of the unpaid social insurance fund contributions accumulated during such period and up to the Latest Practicable Date was approximately RMB1.3 million. | The breach was not wilful and was due to the inadvertent oversight of the responsible staff and the absence of timely and professional advice at the material time. | <p>We have been in compliance with the requirements under relevant laws and regulations in relation to the social insurance fund contributions since August 2015.</p> <p>We have implemented internal control measures relating to compliance with the requirements of social insurance fund contributions. Please see the paragraph headed “Legal compliance and proceedings – Internal control measures to prevent the recurrence of non-compliance incidents” in this section.</p> <p>Provisions have been made by our Group in the corresponding accounting period for the possible payment of the unpaid social insurance fund contributions and the relevant fines accumulated since December 2010 (being the commencement of the non-compliance period). We have made provision of nil, approximately HK\$9,000, approximately HK\$0.5 million, approximately HK\$0.5 million, approximately HK\$0.8 million and approximately HK\$0.5 million for the six years ended 31 December 2015 for the possible payment of the unpaid social insurance fund contributions and the relevant fines.</p> | <p>Dongguan Social Security Department (東莞市社會保障局) has issued a written confirmation dated 15 February 2016 to Tin Da confirming that, for the period from April 2011 to January 2016, (i) Tin Da had no unpaid social insurance fund contributions; and (ii) no administrative penalty was imposed on Tin Da for violating the laws and regulations for social insurance.</p> <p>As advised by our PRC Legal Advisers, according to Section 77 of the Social Insurance Law of the PRC, the social insurance administration departments of the PRC Government on or above the county level are empowered to supervise and examine the status of individual PRC entity’s compliance with the prevailing social insurance laws and regulations in employing any individual. As such, Dongguan Social Security Department, which is in charge of the social insurance administration of Dongguan municipal level, is the competent and appropriate authority to confirm that Tin Da had no unpaid social insurance fund contribution for the period from April 2011 to January 2016 and issue the said confirmation.</p> |

## BUSINESS

| Name(s) of entity(ies) | Particulars of the non-compliance | Reason(s) of non-compliance | Remedial action(s) | Estimated/actual fine/ penalty  |
|------------------------|-----------------------------------|-----------------------------|--------------------|---|
|                        |                                   |                             |                    | <p>As also advised by our PRC Legal Advisers, as Tin Da did not pay the social insurance fund contributions in full as prescribed under the Social Insurance Law of the PRC (《中華人民共和國社會保險法》) since the date of incorporation of Tin Da (being 3 December 2010) up to July 2015, notwithstanding that the Dongguan Social Security Department has issued a written confirmation that Tin Da had no unpaid social insurance fund contributions since April 2011, it is possible, though not likely, that (i) higher authorities which examine and guide the work of Dongguan Social Security Department may challenge the confirmation issued by Dongguan Social Security Department; and (ii) pursuant to the relevant provisions of the Social Insurance Law of the PRC, Dongguan Social Security Department or other competent authorities may request Tin Da to pay the unpaid social insurance fund contributions within a prescribed time limit and a daily fine equivalent to 0.05% of the unpaid social insurance fund contributions from the date on which the payment is overdue. If the payment is not made within the prescribed time limit, Tin Da will be imposed a default fine equivalent to one to three times of the unpaid social insurance fund contributions.</p> <p>As the Latest Practicable Date, we had not received any demand from the relevant authorities requesting us to pay the unpaid social insurance fund contributions.</p> |

## BUSINESS

| Name(s) of entity(ies) | Particulars of the non-compliance   | Reason(s) of non-compliance   | Remedial action(s)  | Estimated/actual fine/ penalty   |
|------------------------|---|---|---|--|
| Tin Da                 | We did not pay housing provident fund contributions as required under the relevant PRC housing provident fund administrative laws and regulations since the date of incorporation of Tin Da (being 3 December 2010) up to 31 December 2014. The amount of unpaid housing provident fund contributions during such period was approximately RMB642,000, of which half of the amount was borne by Tin Da and the other half was borne by the employees of Tin Da. | The breach was not wilful and was due to the inadvertent oversight of the responsible staff and the absence of timely and professional advice at the material time. | <p>We have been in compliance with requirements of paying the housing provident fund contributions for all of our present employees as required under the relevant PRC housing provident fund administrative laws and regulations since January 2015.</p> <p>Provisions have been made by our Group in the corresponding accounting period for the unpaid provident fund contributions accumulated from December 2010 to December 2014 (being the relevant non-compliance period). We have made provision of nil, approximately HK\$12,000, approximately HK\$68,000, approximately HK\$146,000 and approximately HK\$177,000 for the five years ended 31 December 2014 for the unpaid housing provident fund contributions borne by Tin Da and made up the payment of approximately RMB642,000 for the unpaid housing provident fund contributions of all present employees in June 2015.</p> <p>We have implemented internal control measures relating to compliance with the requirements of housing provident fund contributions. Please see the paragraph headed “Legal compliance and proceedings – Internal control measures to prevent the recurrence of non-compliance incidents” in this section.</p> | <p>The Dongguan Housing Provident Fund Management Centre (東莞市住房公積金管理中心) (the “Centre”) has issued a written confirmation dated 24 February 2016 to Tin Da confirming that, since April 2011, no administrative penalty was imposed on Tin Da by the Centre for violating relevant PRC housing provident fund administrative laws and regulations.</p> <p>As advised by our PRC Legal Advisers, the above party is the competent and appropriate authority to issue the said confirmation.</p> <p>As also advised by our PRC Legal Advisers, there is no provision under the relevant PRC laws and regulations stipulating that any fine or penalty will be imposed on Tin Da against the paid housing provident fund contributions, and by making up the outstanding payment for the housing provident fund contributions, the breach had been ceased. Considering that the Centre had issued the written confirmation as mentioned above and based on the experience of our PRC Legal Advisers, the risk of being penalised and/or claimed for Tin Da’s previous non-compliance of housing provident fund contributions for our employees is remote.</p> <p>As the Latest Practicable Date, we had not received any demand from the relevant authorities requesting us to pay the outstanding housing provident fund contributions.</p> |



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| Name(s) of entity(ies) | Particulars of the non-compliance   | Reason(s) of non-compliance   | Remedial action(s)   | Estimated/actual fine/ penalty   |
|------------------------|---|---|--|--|
| Tin Da                 | We did not open housing provident fund accounts for our employees within the prescribed time limit after the date of incorporation of Tin Da (being 3 December 2010). | The breach was not wilful and was due to the inadvertent oversight of the responsible staff and the absence of timely and professional advice at the material time. | <p>We opened the housing provident fund accounts for our employees on 7 January 2015 and have been in compliance with the requirements of laws and regulations in relation to housing provident fund contributions since January 2015.</p> <p>We have implemented internal control measures relating to compliance with the requirements of social insurance fund contributions. Please see the paragraph headed “Legal compliance and proceedings – Internal control measures to prevent the recurrence of non-compliance incidents” in this section.</p> | <p>The Dongguan Housing Provident Fund Management Centre (東莞市住房公積金管理中心) (the “Centre”) has issued a written confirmation dated 24 February 2016 to Tin Da confirming that, since April 2011, no administrative penalty was imposed on Tin Da by the Centre for violating relevant PRC housing provident fund administrative laws and regulations.</p> <p>As advised by our PRC Legal Advisers, the above party is the competent and appropriate authority to issue the said confirmation.</p> <p>As also advised by our PRC Legal Advisers, pursuant to the relevant PRC laws and regulations, Tin Da is at the risk of being ordered to pay a penalty between RMB10,000 and RMB50,000 for its delay in opening of housing provident fund accounts for its employees. However, based on the experience of our PRC Legal Advisers, by opening the housing provident fund accounts for our employees, the breach had ceased and therefore the risk of being penalised by the competent authorities for such breach is remote.</p> <p>As the Latest Practicable Date, we had not received any demand regarding the penalty from the relevant competent authorities.</p> |

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### Breach of land use restriction in respect of our leased property in the PRC

| Name(s) of entity(ies) | Particulars of the non-compliance   | Reason(s) of non-compliance  | Remedial action(s)   | Estimated/actual fine/penalty   |
|------------------------|---|--|--|---|
| Tin Da                 | We have breached the restriction of the land use according to the provisions of Section 63 of the Law of Land Administration of the PRC in respect of Premises 3 where the land use right of Premises 3 is collectively owned and is restricted to residential use. | The breach was not wilful and was due to the lack of professional advice at the material time. | We terminated the lease agreement in respect of Premises 3 in July 2015. We moved out of Premises 3 and relocated our PRC office in July 2015. | No fine or penalty will be applied to the tenant.<br><br>As advised by our PRC Legal Advisers, since Tin Da had moved out of Premises 3 and we no longer use Premises 3 as our office, the unlawful use had ceased. As also advised by our PRC Legal Advisers, because there is no provision under PRC laws and regulations stipulating that any penalty or fine will be imposed against the tenant, Tin Da will not be penalised or fined for such non-compliance. |

### Indemnity given by our Controlling Shareholders

Our Controlling Shareholders have entered into the Deed of Indemnity whereby our Controlling Shareholders have agreed to indemnify our Group, subject to the terms and conditions of the Deed of Indemnity, in respect of any damages, liabilities and losses which are or become payable or suffered by any member of our Group directly or indirectly as a result of or in connection with the incidents referred to in the paragraph headed “Legal compliance and proceedings” in this section. Further details of the Deed of Indemnity are set out in the section headed “E. Other information – 1. Tax and other indemnities” in Appendix IV to this [REDACTED].

### Internal control measures to prevent the recurrence of non-compliance incidents

To prevent the occurrence of any non-compliance in the future and in preparation for the [REDACTED], our Group has adopted and implemented the following corporate governance and internal control measures to enhance the internal control systems and to ensure compliance of various applicable rules and regulations (including the GEM Listing Rules):

- reviewing all lease agreements by our Board, our company secretary and external legal advisers before entering into or varying the terms of any lease agreement. Our Directors will be responsible for ensuring that the use of all leased properties complies with the relevant laws and regulations based on the legal advice obtained from external legal advisers;
- all provisional sales and purchase agreement in relation to the purchase of properties will be reviewed by our Board, our company secretary and external legal advisers before entering into or varying the terms of any provisional sales and purchase agreement;

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- dedicating finance staff for carrying out the calculation, declaration, administration and actual payment of the contributions to social insurance and housing provident funds, and assigning the head of finance department to review and approve the work of the said finance staff. Our Directors will be responsible for ensuring that the contributions to social insurance fund and housing provident fund comply with the relevant laws and regulations based on the legal advice obtained from external legal advisers;
- dedicating finance staff responsible for the opening of housing provident fund accounts for our Group’s employees in the PRC within the prescribed time limit;
- induction training will be arranged for any newly appointed directors, company secretary or head of finance department so as to discuss and study the relevant regulatory requirements in relation to directors’ responsibilities and duties under the relevant laws and regulations;
- our existing Directors have attended directors’ training provided by our Hong Kong Legal Advisers so as to discuss and study the relevant regulatory requirements in relation to directors’ responsibilities and duties under the relevant laws and regulations;
- our Group has appointed our Sole Sponsor as its compliance adviser upon [REDACTED] to advise our Group on compliance matters in accordance with the GEM Listing Rules and will engage external counsel and other advisers when necessary;
- all management and staff of our Group will be required to report to and/or notify our Directors, the compliance officer or the legal advisers of our Group promptly of any non-compliance or potential non-compliance events; and
- meetings and seminars will be arranged for management and staff of our Group from time to time to discuss and study regulatory requirements and latest updates thereof applicable to our Group’s business operations.

### **Review by the independent internal control adviser**

Our Group engaged an internal control adviser (“**IC Adviser**”), which is an Independent Third Party and an international firm of certified public accountants, to conduct a comprehensive review of our Group’s internal control measures, including, among other things, controls and procedures of our Group over corporate governance, revenue, financial reporting, revenue, expenditure management, human resources, treasury and general computer controls. With respect to the non-compliance incidents identified above, the IC Adviser has made recommendations to prevent further breaches and ensure on-going compliance. A follow-up review was conducted by the IC Adviser to review our Group’s newly adopted policies and to perform sample testing to verify the implementation of our Group’s improved internal controls. The IC Adviser is satisfied that our Group has implemented their recommended internal control measures to prevent future non-compliance incidents of similar nature.

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### View of our Directors and our Sole Sponsor

Our Directors consider that the above non-compliance incidents would not affect the suitability of our executive Directors under Rules 5.01 and 5.02 of the GEM Listing Rules or the suitability of [REDACTED] of our Company under Rule 11.06 of the GEM Listing Rules and that the various internal control measures adopted by our Group are adequate and effective having taken into account the fact that (i) our Group has taken the above measures to avoid recurrence of the non-compliance; (ii) no further non-compliance has taken place since adoption of the measures; (iii) the non-compliance was unintentional, did not involve any fraudulent act on the part of our executive Directors, and did not raise any question as to the integrity of our executive Directors.

Our Sole Sponsor, after having considered the above and reviewed the internal control measures and the findings of the IC Adviser, concurs with the view of our Directors that (i) the various internal control measures adopted by our Group are adequate and effective; (ii) the above non-compliance incidents would not affect the suitability of our Directors under Rules 5.01 and 5.02 of the GEM Listing Rules and the suitability of [REDACTED] of our Company under Rule 11.06 of the GEM Listing Rules; and (iii) the non-compliance incidents did not involve any dishonesty of our Directors.

### BUSINESS ACTIVITIES IN SANCTIONED COUNTRIES

The U.S. government and other jurisdictions, including the EU, the United Nations and the Australian government, have comprehensive or broad economic sanctions targeting the Sanctioned Countries.

During the Track Record Period, we had sold our products to customers in Russia, Venezuela and Iraq, which have become Sanctioned Countries since March 2014, March 2015 and August 1990, respectively. The table below sets forth revenues from sales to customers in each of these three countries and the corresponding percentage of our total revenues during the Track Record Period:

|                          | Year ended<br>31 December 2013 |                           | Year ended<br>31 December 2014 |                           | Year ended<br>31 December 2015 |                           |
|--------------------------|--------------------------------|---------------------------|--------------------------------|---------------------------|--------------------------------|---------------------------|
|                          | HK\$'000                       | % of our<br>total revenue | HK\$'000                       | % of our<br>total revenue | HK\$'000                       | % of our<br>total revenue |
| Russia <sup>(1)</sup>    | 94,962                         | 31.3                      | 1,220                          | 0.5                       | nil                            | nil                       |
| Venezuela <sup>(2)</sup> | 3,670                          | 1.2                       | nil                            | nil                       | nil                            | nil                       |
| Iraq <sup>(3)</sup>      | nil                            | nil                       | nil                            | nil                       | 53                             | 0.0                       |
| <b>TOTAL</b>             | <b>98,632</b>                  | <b>32.5</b>               | <b>1,220</b>                   | <b>0.5</b>                | <b>53</b>                      | <b>0.0</b>                |

*Notes:*

1. Russia has been sanctioned by the U.S. government, the EU and the Australian government since March 2014.
2. Venezuela has been sanctioned by the U.S. government since March 2015.
3. Iraq has been sanctioned by the U.S. government, the United Nations, the EU and the Australian government since August 1990.

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As advised by DLA Piper Hong Kong, our legal advisers as to International Sanctions Laws, (i) our Group's sales in Russia, Venezuela and Iraq during the Track Record Period and up to the Latest Practicable Date are activities that do not breach the International Sanctions Laws that apply to our Group; and (ii) given the scope of the [REDACTED] and the expected use of proceeds from the [REDACTED], the involvement by parties in the [REDACTED], including our Group, the investors of our Company, our Shareholders, the Stock Exchange, the HKSCC and the HKSCC Nominees, does not implicate the applicability of International Sanctions Laws on such parties.

DLA Piper Hong Kong conducted the following due diligence on which their advice is based:

- (i) reviewed documents provided by us evident of our sales transactions with the identified Sanctioned Countries during the Track Record Period and up to the Latest Practicable Date;
- (ii) received written confirmation from us that neither our Group nor any of our affiliates had conducted any business dealing in or with any other country or person that are subject to International Sanctions Laws during the Track Record Period and up to the Latest Practicable Date; and
- (iii) reviewed the list of customers in Russia, Venezuela and Iraq to whom our products had been sold during the Track Record Period and up to the Latest Practicable Date against the lists of Sanctioned Persons, and confirmed that none of our customers were on such lists.

In relation to our sales to customers in Russia, Venezuela and Iraq during the Track Record Period and up to the Latest Practicable Date, we have not been notified of any sanction imposed on us. None of the contracting parties was identified on the Specially Designated Nationals and Blocked Persons List maintained by the OFAC or other restricted parties lists maintained by the EU, the United Nations and Australia and were therefore not deemed as sanctioned targets. Our sales do not involve industries or sectors that are currently subject to specific sanctions in the U.S., the EU, Australia or the United Nations and are therefore not deemed as prohibited activities under International Sanctions Laws. Our Directors confirm that our Group will not enter into any business transaction in the Sanctioned Countries or with the Sanctioned Persons in future.

Our Directors and our Sole Sponsor, based on the advice from DLA Piper Hong Kong in relation to the above, are of the view that the risk of sanctions violations as a result of our Group's sales to the customers in Russia, Venezuela and Iraq during the Track Record Period and up to the Latest Practicable Date is remote.

### **Our undertakings and internal control procedures**

We have undertaken to the Stock Exchange that we will not use the proceeds from the [REDACTED] as well as any other funding raised through the Stock Exchange to finance or facilitate, directly or indirectly, activities or business with, or for the benefit of, the Sanctioned Countries or any other government, individual or entity sanctioned by the US, the EU, Australia or the United Nations, which include, without limitation, any government,

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individual or entity that is the subject of any OFAC-administered sanction. We have also undertaken to the Stock Exchange that we will not enter into any sanctionable transactions that would or may expose our Group, the Stock Exchange, HKSCC, HKSCC Nominees and our Shareholders or investors to any risk of being sanctioned. We will disclose on the respective websites of the Stock Exchange and our Company if there was any violation or potential violation of sanctions laws, and will also disclose in our annual reports or interim reports (i) our efforts in monitoring our business exposure to sanctions risk; and (ii) our compliance with the above undertakings to the Stock Exchange.

In order to ensure our compliance with the aforesaid undertakings to the Stock Exchange, we shall open and maintain separate bank account(s) which is/are designated for proceeds from the [REDACTED], as well as any other funding raised through the Stock Exchange. Our Board will continuously monitor the use of proceeds from the [REDACTED] as well as any other funding raised through the Stock Exchange after the [REDACTED] to ensure that such funding will not be used to finance or facilitate, directly or indirectly, activities or business with, or for the benefit of, the Sanctioned Countries or Sanctioned Persons.

We will continue to monitor and evaluate our business and take measures to protect the interests of our Group and our Shareholders. The following measures have been fully implemented as of the date of this [REDACTED]:

- We will not enter into any business transaction in the Sanctioned Countries or with the Sanctioned Persons in the future.
- Our Board has established a risk management committee (the “**Risk Management Committee**”), comprising Mr. KW Ho, Mr. KP Ho and Mr. Yuen Poi Lam William. The responsibilities of our Risk Management Committee include, among others, monitoring our exposure to sanctions risk and our implementation of the related internal control procedures. Our Risk Management Committee will hold meetings regularly to monitor our exposure to sanctions risk.
- We have assigned members of our merchandising department and order processing department to review the information relating to our customer(s) or the counterparty(ies) of the contract (including its full name, country of incorporation or registration and country of shipment destination) before we enter into any business transaction with any of them. Our designated staff will check the information of our customer(s) or the counterparty(ies) against various lists of restricted parties and countries maintained by the US, the EU, Australia or the United Nations, including, without limitation, any government, individual or entity that is the subject of any OFAC-administered sanctions (the “**International Sanctions List**”), and determine whether our customer(s) or the counterparty(ies) (i) is/are registered or operate(s) in the Sanctioned Countries; (ii) is/are owned or controlled by a Sanctioned Person; or (iii) has/have shipment destination which is located in the Sanctioned Countries. If our designated staff finds that the customer or the counterparty(ies) is/are registered or operate(s) in the Sanctioned Countries, owned or controlled by a Sanctioned Person, or has a shipment destination located in the Sanctioned Countries, our merchandising department will turn down the business opportunity immediately.

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- Our merchandising manager, Ms. Tam Ching Han (being a member of the senior management of our Group), will review the work done by the designated staff in relation to the above procedures. Approval from our merchandising manager is required before we confirm to enter into any business transaction with the customer. Ms. Tam Ching Han has over 18 years of experience in sales and merchandising of footwear industry and sales of footwear to overseas countries. Our Directors are of the view that she is competent to perform the assigned tasks to review the work done by the designated staff and monitor the sanctions risk of our Group. Please refer to the section headed “Directors, senior management and staff – Senior management” in this [REDACTED] for further details of the profile and background of Ms. Tam Ching Han.
- We have consolidated the list of restricted parties and countries set out in the International Sanctions Lists, which, together with the method of accessing the latest International Sanctions Lists, will be updated and circulated to the staff of our merchandising department and order processing department every six months.
- Our Risk Management Committee will periodically review our internal control procedures with respect to sanctions law matters. As and when our Risk Management Committee considers necessary, we will retain external international legal counsel with necessary expertise and experience in sanctions law matters for recommendations and advice, such as reviewing the list of restricted parties and countries set out in the International Sanctions Lists consolidated by us.
- Our Company engaged an external international legal firm, namely, DLA Piper, to provide training programmes relating to the sanctions laws to the Directors, the senior management of our Group (including Ms. Tam Ching Han), and other relevant personnel to assist them in evaluating the potential sanctions risk in the daily operations of our Group on 3 March 2016. Our Company had also engaged DLA Piper (i) to assess the applicability of US, European Union, United Nations and Australian laws and regulations related to economic sanctions and wider trade restrictions to our Company (the “**International Sanctions**”); and (ii) to provide recommendations to our Company in regards to International Sanctions. Additional training programmes would also be provided in the event that there is material development in or update to the sanctions laws. Our Company will continue to engage an external international legal counsel to provide training to our Directors and senior management of our Group, including Ms. Tam Ching Han, in relation to sanctions laws if needed, on an annual basis.

With regard to the internal control measures set out above, subject to the full implementation and enforcement of these measures, our Sole Sponsor is of the view that these measures will provide a reasonably adequate and effective framework to assist our Company in identifying and monitoring any material risk relating to sanctions laws. Our Directors are also of the view that these measures will provide a reasonably adequate and effective framework to assist us in identifying and monitoring any material risk relating to sanctions laws.



## DIRECTORS, SENIOR MANAGEMENT AND STAFF

### DIRECTORS AND SENIOR MANAGEMENT

The Board currently consists of five Directors, comprising two executive Directors and three independent non-executive Directors. The Board is responsible and has general powers for management and conduct of our Group’s business. The following table sets forth certain information concerning our Directors:

| Name                           | Age | Position  | Roles and responsibilities  | Date of joining our Group | Date of appointment  | Relationship with other Directors and senior management |
|--------------------------------|-----|---|---|---------------------------|--|---|
| Mr. Ho Kin Wai (何建偉)           | 40  | Chairman, chief executive officer and executive Director; | Responsible for the overall business development, sales, strategic planning and major decision-making of our Group; serving as chairman of our nomination committee and risk management committee, a member of our remuneration committee | January 2009              | Appointed as Director on 6 February 2015 and redesignated as executive Director on 18 September 2015; appointed as the chairman and chief executive officer on 18 September 2015 | Mr. Ho Kin Wai and Mr. Ho Kin Pong are brothers         |
| Mr. Ho Kin Pong (何建邦)          | 32  | Executive Director  | Responsible for the overall administrative works and human resources issues of our Group; serving as a member of our risk management committee  | October 2013              | 18 September 2015  | Mr. Ho Kin Wai and Mr. Ho Kin Pong are brothers         |
| Mr. Yuen Poi Lam William (袁沛林) | 48  | Independent non-executive Director                        | Serving as chairman of our audit committee, a member of our remuneration committee and risk management committee; advising on corporate governance matters  | 11 May 2016               | 11 May 2016  | N/A   |

## DIRECTORS, SENIOR MANAGEMENT AND STAFF

| Name                          | Age | Position                           | Roles and responsibilities  | Date of joining our Group | Date of appointment | Relationship with other Directors and senior management |
|-------------------------------|-----|------------------------------------|---|---------------------------|---------------------|---|
| Mr. Lu Tak Ming<br>(盧德明)      | 68  | Independent non-executive Director | Serving as a member of our audit committee and nomination committee; advising on corporate governance matters   | 11 May 2016               | 11 May 2016         | N/A   |
| Mr. Lee Tat Yin Rick<br>(李達然) | 40  | Independent non-executive Director | Serving as chairman of our remuneration committee, a member of our nomination committee and audit committee; advising on corporate governance matters | 11 May 2016               | 11 May 2016         | N/A   |

The following table sets forth certain information concerning our other senior management members:

| Name                             | Age | Position   | Roles and responsibilities   | Date of joining our Group | Relationship with other Directors and senior management |
|----------------------------------|-----|--|--|---------------------------|---|
| Mr. Tan Jacky                    | 48  | General manager                                    | Responsible for the overall management, sales and merchandising of footwear and customer relationship of our Group | October 2014              | N/A   |
| Mr. Shek Linus Man-keit<br>(石文傑) | 40  | Head of design and business development department | Responsible for product design, sales and business development of our Group  | January 2013              | N/A   |
| Ms. Tam Ching Han<br>(譚靜嫻)       | 41  | Merchandising manager                              | Responsible for merchandising of footwear and customer relationship of our Group                                   | August 2012               | N/A   |
| Ms. Chun Wan Chee<br>(曾韻慈)       | 50  | Chief financial officer                            | Responsible for the overall financial management of our Group  | February 2016             | N/A   |

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## DIRECTORS, SENIOR MANAGEMENT AND STAFF

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### DIRECTORS

#### Executive Directors

**Mr. Ho Kin Wai** (何建偉), aged 40, was appointed as a Director on 6 February 2015 and was then redesignated as an executive Director and appointed as the chairman and chief executive officer of our Company on 18 September 2015. He is the chairman of our nomination committee and risk management committee, and a member of our remuneration committee. He is one of the founders of our Group and has been a director of Ever Smart since January 2009. Mr. KW Ho is responsible for the overall business development, sales, strategic planning and major decision-making of our Group. He has over 12 years of experience in the footwear industry.

Mr. KW Ho obtained a bachelor of science in management in August 1999 from Royal Holloway and Bedford New College, University of London in the UK (currently known as Royal Holloway, University of London) and a master of science in interactive multimedia in June 2001 from Middlesex University in the UK.

From December 2000 to December 2001, Mr. KW Ho was a programmer of The Chase Manhattan Bank, the principal business of which is providing financial services, responsible for customising trade finance client-server application and providing support to internal users globally. From February 2002 to June 2003, Mr. KW Ho was a director of China Ace Technology Limited, a private company incorporated in Hong Kong and an information technology solution provider. From July 2003 to January 2009, he served as senior merchandiser of Betastar, the principal business of which is trading of children’s footwear, responsible for sourcing footwear manufacturers, developing footwear, and handling and monitoring order process. Mr. KW Ho is the elder brother of Mr. KP Ho.

Code provision A.2.1 of the Corporate Governance Code (“**CG Code**”) in Appendix 15 to the GEM Listing Rules stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual. Mr. KW Ho is the chairman and the chief executive officer of our Company. As Mr. KW Ho is one of the founders of our Group and has been operating and managing our Group since 2009, the Board believes that it is in the best interest of our Group to have Mr. KW Ho taking up both roles for effective and efficient management, strategic planning and business development for our Group, notwithstanding that it is a deviation from code provision A.2.1 of the CG Code.

**Mr. Ho Kin Pong** (何建邦), aged 32, was appointed as an executive Director on 18 September 2015. He is a member of our risk management committee. He has been administrative and human resources manager of our Group since October 2013. He is responsible for the overall administrative work and human resources management of our Group.

Mr. KP Ho obtained a bachelor of arts in economics in June 2005 from the University of Stirling in the UK. Mr. KP Ho has approximately 8 years of experience in leather trading business. From November 2005 to September 2013, he served as sales trainee, and was later

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## DIRECTORS, SENIOR MANAGEMENT AND STAFF

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promoted to senior sales manager, of Edward Wong & Company Limited, which is principally engaged in international trade of leather and textile, responsible for sales of leather. Mr. KP Ho is the younger brother of Mr. KW Ho.

### Independent non-executive Directors

**Mr. Yuen Poi Lam William** (袁沛林) (“**Mr. Yuen**”), aged 48, was appointed as an independent non-executive Director on 11 May 2016. He is the chairman of our audit committee and a member of our remuneration committee and risk management committee.

Mr. Yuen has over 20 years of experience in corporate finance, accounting and auditing, corporate management as well as company secretarial compliance. Mr. Yuen has been the company secretary of Kong Shum Union Property Management (Holding) Limited, a company listed on the GEM (stock code: 8181), since April 2015.

From February 2011 to March 2014, he was the company secretary of Neo Telemedia Limited, a company listed on the GEM (stock code: 8167). From December 2010 to November 2012, Mr. Yuen was the chief financial officer of Superb Summit International Timber Company Limited (currently known as Superb Summit International Group Limited), a company listed on the main board of the Stock Exchange (stock code: 1228). From December 2008 to November 2010, Mr. Yuen served as the chief financial officer of China E-Learning Group Limited, a company listed on the GEM (stock code: 8055).

Prior to joining China E-Learning Group Limited, Mr. Yuen had served as a senior manager in the capital markets group of Ernst & Young in Hong Kong from November 2006 to December 2008, and as an audit senior manager of Ernst & Young LLP and Deloitte & Touche LLP in Los Angeles, the United States from December 2005 to October 2006 and from April 2004 to November 2005, respectively. Mr. Yuen worked for KPMG Peat Marwick (currently known as KPMG) from August 1991 to November 1997 and from September 1999 to April 2004, where his last position was audit manager.

Mr. Yuen graduated from the University of Southern California in the United States with a bachelor of science in accounting. He is a member of the American Institute of Certified Public Accountants and the Hong Kong Institute of Certified Public Accountants. He is also a certified public accountant in the State of California, the United States and a chartered global management accountant in the United States.

**Mr. Lu Tak Ming** (盧德明) (“**Mr. Lu**”), aged 68, was appointed as an independent non-executive Director in 11 May 2016. He is a member of our audit committee and nomination committee.

Mr. Lu has been an independent non-executive director of Kate China Holdings Limited, whose shares are listed on the GEM (stock code: 8125) and principal business is provision of one-stop service ranging from design, project implementation and management to the procurement of furnishings and materials, since June 2014. From August 1971 to October 2003, he worked in the Social Welfare Department of Hong Kong, serving several positions including social welfare officer, chief social work officer and principal social work

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## DIRECTORS, SENIOR MANAGEMENT AND STAFF

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officer of Tsuen Wan and Kwai Ching District before his retirement in 2003. He was awarded a bachelor of social science from the Chinese University of Hong Kong in October 1971.

From October 2004 to March 2013, he was the chief executive officer of Yan Oi Tong Limited, which is a welfare organisation. He is also a registered social worker with the Social Workers Registration Board.

**Mr. Lee Tat Yin Rick** (李達然) (“**Mr. Lee**”), aged 40, was appointed as an independent non-executive Director on 11 May 2016. He is the chairman of our remuneration committee and a member of our nomination committee and audit committee.

He has more than 14 years of experience in the technology industry. From January 2000 to August 2014, Mr. Lee worked at JPMorgan Chase Bank, N.A., serving several positions including information technology professional and technical officer responsible for developing and supporting global trade finance system; assistant vice president responsible for project delivery of multiple trade finance systems; and vice president responsible for overseeing global trade finance internet system portfolio. Since June 2015, he has been a director of Appitiza Limited, a private company engaged in the development of game programmes.

He obtained a bachelor of science degree in information technology from the City University of Hong Kong in November 1998.

Save as disclosed above, none of the courses attended by our Directors was distance learning or online course.

### DIRECTORS’ INTEREST

Details of our Directors’ emoluments (whether covered by service contracts or not), the basis of determining our Directors’ emoluments and the proposed length of service as stated in service contracts are set out in the section headed “C. Further information about directors, management and staff – 1. Directors – (b) Particulars of service contracts” in Appendix IV to this [REDACTED].

Save as disclosed in this [REDACTED], each of our Directors confirmed that as at the Latest Practicable Date, he (i) did not hold any other directorships in the last three years prior to the Latest Practicable Date in public companies the securities of which are listed on any securities market in Hong Kong or overseas; (ii) did not hold other positions in our Company or other members of our Group; (iii) did not have any other relationship with any Directors, senior management, substantial shareholders or controlling shareholders of our Company nor any interests in the Shares with the meaning of Part XV of the SFO.

Save as disclosed in this [REDACTED], to the best of the knowledge, information and belief of our Directors having made all reasonable enquiries, there were no other matters with respect to the appointment of our Directors that need to be brought to the attention of

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## **DIRECTORS, SENIOR MANAGEMENT AND STAFF**

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our Shareholders and there was no information relating to our Directors that is required to be disclosed pursuant to Rule 17.50(2)(h) to (v) of the GEM Listing Rules as at the Latest Practicable Date.

### **BOARD COMMITTEES**

#### **Audit committee**

Our Company established an audit committee on 11 May 2016 with written terms of reference in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules and paragraph C.3 of the Corporate Governance Code and Corporate Governance Report as set out in Appendix 15 to the GEM Listing Rules. The primary duties of our audit committee are mainly to make recommendation to the Board on the appointment and removal of external auditors; review and financial statements and material advice in respect of financial reporting; and oversee internal control procedures of our Company. Our audit committee currently consists of three members, namely Mr. Yuen Poi Lam William, Mr. Lu Tak Ming and Mr. Lee Tat Yin Rick. The chairman of our audit committee is Mr. Yuen Poi Lam William.

#### **Remuneration committee**

Our Company established a remuneration committee on 11 May 2016 with written terms of reference in compliance with Rules 5.34 to 5.36 of the GEM Listing Rules and paragraph B.1 of the Corporate Governance Code and Corporate Governance Report as set out in Appendix 15 to the GEM Listing Rules. The primary duties of our remuneration committee are to make recommendation to the Board on the overall remuneration policy and structure relating to all Directors and senior management of our Group; review performance based remuneration; and ensure none of our Directors determine their own remuneration. Our remuneration committee currently consists of three members, namely Mr. Lee Tat Yin Rick, Mr. KW Ho and Mr. Yuen Poi Lam William. The chairman of our remuneration committee is Mr. Lee Tat Yin Rick.

#### **Nomination committee**

Our Company established a nomination committee on 11 May 2016 with written terms of reference in compliance with paragraph A.5 of the Corporate Governance Code and Corporate Governance Report as set out in Appendix 15 to the GEM Listing Rules. The primary duties of our nomination committee are to review the structure, size and composition of the Board on regular basis; identify individuals suitably qualified to become Board members; assess the independence of independent non-executive Directors; and make recommendations to the Board on relevant matters relating to the appointment or re-appointment of Directors. Our nomination committee currently consists of three members, namely Mr. KW Ho, Mr. Lu Tak Ming and Mr. Lee Tat Yin Rick. The chairman of our nomination committee is Mr. KW Ho.

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## DIRECTORS, SENIOR MANAGEMENT AND STAFF

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### Risk management committee

Our Company established a risk management committee on 11 May 2016. The primary duties of our risk management committee are to review our Company’s risk management policies and monitor our Company’s exposure to sanctions law risks and our implementation of the related internal control procedures. Our risk management committee currently consists of three members, namely Mr. KW Ho, Mr. KP Ho and Mr. Yuen Poi Lam William. The chairman of our risk management committee is Mr. KW Ho.

### SENIOR MANAGEMENT

**Mr. Tan Jacky (“Mr. Tan”)**, aged 48, has been a general manager of the Group since October 2014. He is primarily responsible for the overall management, sales and merchandising of footwear and customer relationship of our Group.

Mr. Tan has approximately 25 years of experience in sales, product development and brand management in the footwear industry. From February 1990 to December 1995, Mr. Tan served consecutively as sales manager, national sales manager and international sales manager of Windsor Smith Pty Ltd, a footwear wholesaler and retailer based in Australia, responsible for sale of products. From October 1996 to February 2005 and April 2007 to August 2014, he served consecutively as product manager, national sales manager and brand manager of Pacific Brands Holdings Pty Ltd, a wholesaler and distributor of footwear and apparel products based in Australia, responsible for the sales and marketing of footwear of various international brands and the formulation and implementation of brand strategies and budgets. From March 2005 to March 2007, he served as general manager of Prodigy Footwear Pty Ltd, a wholesaler of footwear based in Australia, responsible for launching men’s fashion footwear brand.

Mr. Tan completed the advanced executive program from the Melbourne Business School in Australia in November 2008 during his employment in Pacific Brands Holdings Pty Ltd.

**Mr. Shek Linus Man-keit (石文傑)**, aged 40, has been head of design and business development department of our Group since January 2013. He is responsible for the product design, sales and business development of our Group.

From 1998 to 1999, Mr. Shek served as graphic designer of OAKRIDGE, a wholesaler of apparel and accessories, responsible for men’s apparel design. From 2000 to 2003, he served as graphic designer of Eurotop Trading, a wholesaler of apparel and accessories, responsible for men’s apparel ranges and men’s underwear-loungewear design. From 2003 to 2006, he served as graphic designer of Broomart Limited, a wholesaler of apparel and accessories, responsible for men’s apparel ranges and men’s underwear-loungewear design. From 2007 to 2008, he served as graphic designer of Oceania Trading Limited, a wholesaler of apparel and accessories, responsible for kid’s and men’s apparel ranges. In 2010, he served as director of Edcase Limited, which principally engaged in design consultancy and sourcing.

He completed A-level examinations in 1994 at St Dunstan’s College in the UK.



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## DIRECTORS, SENIOR MANAGEMENT AND STAFF

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**Ms. Tam Ching Han** (譚靜嫻), aged 41, has been merchandising manager of our Group since August 2012. She is responsible for merchandising of footwear and customer relationship of our Group.

She has over 18 years of experience in sales and merchandising of footwear industry. Prior to joining our Group, she worked as a sales manager of Betastar, which is a footwear exporter, from November 1996 to July 2012, and she was responsible for sourcing footwear manufacturers, developing footwear, and handling and monitoring the order process. She obtained a bachelor of arts in information system from the City University of Hong Kong in December 1996.

**Ms. Chun Wan Chee** (曾韻慈), aged 50, joined the Group as the chief financial officer in February 2015 and resigned in September 2015 due to her wish to focus on her family and personal matters at that time. She rejoined the Group as chief financial officer in February 2016 and is responsible for the overall financial management of our Group.

Ms. Chun has approximately 24 years of experience in auditing, accounting and company secretarial practices. From July 1989 to November 1996, she was a manager of KPMG Peat Marwick (currently known as KPMG). From November 1996 to September 2003, she was an assistant financial controller of Stone Electronic Technology Limited (currently known as Stone Group Holdings Limited), which is principally engaged in manufacturing, distributing and selling electronic products, and she was responsible for accounting, secretarial and compliance matters. From July 2003 to July 2012, she worked as a sole proprietor providing accounting and tax advisory services in the capacity of certified public accountant.

Ms. Chun obtained a bachelor of science in economics and management studies as an external student from the University of London in August 1993. She is an associate member of the Hong Kong Institute of Certified Public Accountant and the Hong Kong Institute of Chartered Secretaries.

Save as disclosed above, none of the courses attended by our senior management was distance learning or online course.

### COMPENSATION

Our senior management members receive compensation in the form of salaries, benefits in kind and/or discretionary bonuses with reference to their time commitment and performance of our Group. We also reimburse our senior management members for expenses which are necessarily and reasonably incurred for provision of services to us or executing their functions in relation to our operations. We regularly review and determine the remuneration and compensation packages of our senior management members by reference to, among other things, market level of remuneration and compensation paid by comparable companies, and taking into account the respective responsibilities of our senior management members and performance of our Group.

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## **DIRECTORS, SENIOR MANAGEMENT AND STAFF**

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### **COMPANY SECRETARY**

Ms. Lee Kit Yu (李潔瑜), aged 30, joined our Group in May 2015 as deputy chief finance officer and was appointed as our financial controller and company secretary in September 2015. She is responsible for the overall financial management and company secretarial matters of our Group.

Ms. Lee served consecutively as associate, senior and manager of the audit department of Deloitte Touche Tohmatsu from October 2008 to April 2015. Ms. Lee obtained a bachelor of science in accounting and finance from the University of Warwick in 2008. She is a member of the Hong Kong Institute of Certified Public Accountants.

### **DIRECTORS' REMUNERATION**

We reimburse our Directors for expenses which are necessarily and reasonably incurred for providing services to our Company or executing their functions in relation to our operations. Our executive Directors are also employees and receive, in their capacity as employees, compensation in the form of salaries and other allowances and benefits in kind.

For the three years ended 31 December 2015, the aggregate amount of fees, salaries, allowances, discretionary payments, bonuses and contribution to pension schemes paid by our Group to our Directors was approximately HK\$4.2 million, HK\$3.9 million and HK\$3.9 million, respectively. It is estimated that under the arrangements currently in force, the aggregate remuneration (excluding any discretionary bonuses) payable to our Directors for the year ending 31 December 2016 will be approximately HK\$3.5 million. We will maintain relevant liability insurance for our Directors upon [REDACTED].

The five highest paid individuals of our Group for the Track Record Period included one executive Director, whose remuneration is included in the aggregate amount of fees, salaries, allowances, discretionary payments, bonuses and contribution to pension schemes paid by our Group to the executive Directors set out above. The aggregate amount of fees, salaries, allowances, discretionary payments, bonuses and contribution to pension schemes paid by our Group to the remaining four of our five highest paid individuals (excluding the executive Directors) in respect of the three years ended 31 December 2015 was approximately HK\$1.8 million, HK\$2.0 million and HK\$2.9 million, respectively.

During the Track Record Period, no remuneration was paid to, or received by, our Directors or the five highest paid individuals of our Group as an inducement to join or upon joining our Group. No compensation was paid to, or received by, such individuals during the Track Record Period for the loss of any office in connection with the management of the affairs of any member of our Group.

During the Track Record Period, none of our Directors has waived or agreed to waive any remuneration. Save as disclosed above, no other payments have been paid or are payable in respect of the three years ended 31 December 2015 to our Directors or the five highest paid individuals of our Group.

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## **DIRECTORS, SENIOR MANAGEMENT AND STAFF**

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### **EMPLOYEES**

For details of the employees of our Group, including staff benefits and incentive plans provided by our Group, please refer to the section headed “Business – Employees” in this [REDACTED].

### **COMPLIANCE OFFICER**

Mr. KW Ho is the compliance officer of our Company. For details of his biography, please refer to “Executive Directors” in this section.

### **COMPLIANCE ADVISER**

In accordance with Rule 6A.19 of the GEM Listing Rules, our Company has appointed our Sole Sponsor as our compliance adviser. Pursuant to Rule 6A.23 of the GEM Listing Rules, our Company will 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 our Company proposes to use the proceeds of the [REDACTED] in a manner different from that detailed in this [REDACTED] or where the business activities, developments or results of our Company deviate from any forecast, estimate or other information in this [REDACTED]; and
- (d) where the Stock Exchange makes an inquiry of our Company of unusual movements in the price or trading volume of our [REDACTED] or any other matters in accordance with Rule 17.11 of the GEM Listing Rules.

The term of appointment of the compliance adviser of our Company shall commence on the [REDACTED] and end on the date on which our Company complies with Rule 18.03 of the GEM Listing Rules in respect of the financial results for the second full financial year commencing after the [REDACTED].

### **COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE**

Our Company places high value on our corporate governance practice and our Board firmly believes that a good corporate governance practice can improve accountability and transparency for the benefit of our Shareholders. We will comply with the code provisions set out in the Corporate Governance Code and Corporate Governance Report in Appendix 15 to the GEM Listing Rules after the [REDACTED].

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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### THE CONTROLLING SHAREHOLDERS

Immediately following completion of the [REDACTED] and the Capitalisation Issue (assuming that no Share is issued pursuant to the exercise of options which may be granted under the Share Option Scheme), Mr. KW Ho, through Asia Matrix, will be interested in [REDACTED]% of the issued share capital of our Company. In view of the aforesaid, each of Asia Matrix and Mr. KW Ho will be our Controlling Shareholder within the meaning of the GEM Listing Rules.

On 25 October 2014, Mr. KC Ho and Mr. KW Ho executed the Confirmatory Deed (as supplemented on 16 September 2015), whereby they acknowledged and confirmed, among other things, their acting in concert arrangements since the establishment of our Group, which therefore cover the commencement date of the Track Record Period to 24 January 2014. For details of the Confirmatory Deed and the said acting in concert arrangements, please refer to the section headed “History, Reorganisation and corporate structure – Parties acting in concert” in this [REDACTED]. On 24 January 2014, Mr. KC Ho transferred his entire shareholding interests in Ever Sound to Mr. KW Ho. After such transfer, Mr. KC Ho is no longer interested in any share of our Group. Mr. KC Ho also resigned as director of Ever Sound, Ever Smart and D&S on 24 January 2014 and resigned as director of Alliance on 21 November 2014. Since 21 November 2014, Mr. KC Ho has not held any position in our Group. The transfer of shares to Mr. KW Ho and Mr. KC Ho’s resignation as director of each Ever Sound, Ever Smart, D&S and Alliance were part of his retirement plan from his shoe trading business. Mr. KC Ho confirmed that he had never had any active involvement in the daily operations and management of our Group’s business though he, together with Mr. KW Ho, had provided personal guarantee and securities in favour of the banks which had granted banking facilities to our Group at the request of such banks due to his capacity as a shareholder of Ever Sound and a director of certain subsidiaries of our Group at the material time.

Notwithstanding the aforesaid share transfer and the resignation of directorship by Mr. KC Ho in the above companies, Mr. KC Ho is deemed to be a Controlling Shareholder for the purposes of the GEM Listing Rules for the following reasons:

- (i) there is a strong family tie between Mr. KC Ho and Mr. KW Ho as Mr. KC Ho is the father of Mr. KW Ho and a party acting in concert with Mr. KW Ho and thus, Mr. KC Ho shall be deemed to have control over our Group after the share transfer on 24 January 2014;
- (ii) the share transfer on 24 January 2014 had not resulted in any actual change in control over our Group from Mr. KC Ho and Mr. KW Ho to Mr. KW Ho solely, as our Group has been under the de facto control of Mr. KW Ho since its establishment, in particular, Mr. KW Ho has exerted dominant influence on the management, business development and the overall operations of our Group whereas Mr. KC Ho had no active involvement in the daily operations and management of our Group;

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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- (iii) Mr. KC Ho's actual position was not altered by the share transfer on 24 January 2014 as according to the Confirmatory Deed, he had been acting according to the instruction and direction of Mr. KW Ho in exercising his voting rights related to the business and affairs of our Group. As a result, Mr. KC Ho and Mr. KW Ho had casted unanimous vote collectively for or against all resolutions in all meetings of our Group; and
- (iv) the acting in concert arrangements between Mr. KC Ho and Mr KW Ho which has been reduced to writing in the Confirmatory Deed.

Save as disclosed above, there is no other person who will, immediately following completion of the [REDACTED] (without taking into account any Shares which may be issued upon the exercise of any options which may be granted under the Share Option Scheme), be directly or indirectly interested in 30% or more of the Shares then in issue or have a direct or indirect equity interest in any member of our Group representing 30% or more of the equity in such entity.

### COMPANIES OWNED BY CONTROLLING SHAREHOLDERS BUT NOT INCLUDED IN OUR GROUP

Our Controlling Shareholders are also interested in a number of companies which are either (i) inactive or (ii) engaged in other business activities that are not related to our Group's businesses, all such businesses will not form part of our Group after the [REDACTED].

Mr. KW Ho is an executive Director of our Company. He is also a director and shareholder of Ever Sound and a number of companies, which are either inactive or engaged in other business not related to our Group's businesses. Ever Sound is a company incorporated in Hong Kong with limited liability on 26 June 2008, which is wholly owned by Mr. KW Ho. Ever Sound was the holding vehicle of Ever Smart, D&S and Alliance before the Reorganisation. After the Reorganisation, Ever Sound does not hold any shares in these companies and has become inactive.

Mr. KC Ho was a director and shareholder of Betastar, which had been dissolved in March 2015, and a number of companies, which are either inactive or engaged in other businesses not related to our Group's businesses. Betastar was a company incorporated in Hong Kong with limited liability on 17 March 1989, which was owned as to 45% by Mr. KC Ho and 55% by two other shareholders, who were Independent Third Parties. The directors of Betastar were Mr. KC Ho and one of Betastar's shareholders, who were responsible for its overall management. Betastar was principally engaged in the trading of children's footwear since 1989.

In mid 2011, Mr. KC Ho decided to spend more time with his late wife and retire from his shoe trading business gradually and therefore purported to scale down the business of Betastar. For the three years ended 31 December 2012, Betastar recorded revenue of approximately HK\$299.5 million, HK\$214.7 million and HK\$41.6 million respectively and profit for the year of approximately HK\$14.7 million, HK\$2.1 million and HK\$0.9 million respectively. Since August 2012, Mr. KC Ho and the other two shareholders had ceased the

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## **RELATIONSHIP WITH CONTROLLING SHAREHOLDERS**

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operation of Betastar and no revenue had been recorded for Betastar thereafter. As Betastar had ceased operation prior to the commencement of the Track Record Period, there was no overlapping of customers and suppliers of Betastar and our Group during the Track Record Period.

Betastar engaged a senior partner of a reputable accountancy firm as the liquidator in its voluntary liquidation in December 2013 and was subsequently dissolved in March 2015. Considering that Betastar was dissolved by way of voluntary liquidation, all outstanding claims, liabilities or legal proceedings whatsoever against Betastar, if any, should have been fully settled before its dissolution. Pursuant to Mr. KC Ho's confirmation and the independent litigation and background searches conducted by a third party agent on both Mr. KC Ho and Betastar, it is noted that both Mr. KC Ho and Betastar were not subject to any disputes, claims, legal proceedings or investigations prior to or in the course of Betastar's cessation of business.

Based on the aforesaid and taking into account the fact that (i) Betastar had ceased operation; and (ii) Betastar and our Group had been under separate management and operation, the children's footwear trading business of Betastar was not included in our Group.

### **RULE 11.04 OF THE GEM LISTING RULES**

Each of our Controlling Shareholders, our Directors, our substantial Shareholders and their respective close associates do not have any interest in a business apart from our Group's business which competes or is likely to compete, directly or indirectly, with our Group's business, and would require disclosure pursuant to Rule 11.04 of the GEM Listing Rules.

### **INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS**

Our Directors consider that our Group is capable of carrying on our business independent of and without undue reliance on our Controlling Shareholders and their respective close associates after the [REDACTED] based on the following reasons:

#### **Management independence**

Our Company aims to establish and maintain a competent and independent Board to supervise our Group's business. The main functions of our Board include (i) approving our overall business plans and strategies; (ii) monitoring the implementation of the aforesaid policies and strategies; and (iii) managing our Group. We have an independent management team, which is led by a team of experienced senior management with expertise in our business, to implement our Group's policies and strategies.

Our Board consists of five Directors, comprised of two executive Directors and three independent non-executive Directors. Each of Mr. KW Ho and Mr. KP Ho is an executive Director.

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## **RELATIONSHIP WITH CONTROLLING SHAREHOLDERS**

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Each of our Directors is aware of his fiduciary duties as a director which require, among other things, that he acts for the benefit and in the best interests of our Company and does not allow any conflict between his duties as a Director and his personal interest to exist. In the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and our Directors or their respective associates, the interested Director(s) shall abstain from voting at the relevant Board meeting in respect of such transaction and shall not be counted in the quorum.

### **Operational independence**

Our Group has established our own organisational structure comprising of individual departments, each with specific areas of responsibilities. Our Group has not shared our operational resources, such as suppliers, customers, sales and marketing and general administration resources, with our Controlling Shareholders and/or their respective close associates.

### **Financial independence**

Our Group has our own financial management and accounting systems, accountant and administration department and the ability to operate independently from our Controlling Shareholders from a financial perspective. We make financial decision according to our own business needs.

Our Directors confirm that all financial assistance, including amounts due to, loans or guarantees provided by our Controlling Shareholders and its associates to our Group was or will be settled in full or released before the [REDACTED].

Having considered the above factors, our Directors consider that we have no financial dependence on our Controlling Shareholders.

### **Independence of major customers**

Our Directors confirmed that none of our Controlling Shareholders, our Directors and their respective close associates, have any relationship with the major customers of our Group (other than the business contacts in the ordinary and usual course of business of our Group) during the Track Record Period and up to the Latest Practicable Date.



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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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### NON-COMPETITION UNDERTAKINGS

Our Controlling Shareholders as covenantors (each of them, a “**Covenantor**” and collectively, the “**Covenantors**”) executed the Deed of Non-Competition in favour of our Company (for ourselves and as trustee for and on behalf of our subsidiaries).

In accordance with the Deed of Non-Competition, each Covenantor undertakes that, from the [REDACTED] and ending on the occurrence of the earliest of (i) the date on which the Shares cease to be [REDACTED] on GEM; or (ii) the date on which the Covenantors cease to be a Controlling Shareholder:

#### 1. Non-competition

He/it will not, and will use his/its best endeavours to procure any Covenantor, his/ its close associates (collectively, the “**Controlled Persons**”) and any company directly or indirectly controlled by the Covenantor (the “**Controlled Company**”) not to, either on his/its own or in conjunction with or on behalf of any person, firm or any body corporate, partnership, joint venture or other contractual agreement, whether directly or indirectly, among other things, carry on, participate or be interested in, hold any right or interest (in each case whether as an investor, a shareholder, principal, partner, director, employee, consultant, urgent, or otherwise and whether for profit, reward, interest or otherwise), engage in, acquire or operate, or provide any form of assistance to any person, firm or company (except members of our Group) to conduct any business which is or may be in competition, whether directly or indirectly, with the business carried on or contemplated to be carried on by our Company or any of our subsidiaries in Hong Kong, the PRC and such other places as our Company or any of our subsidiaries may conduct or carry on business from time to time, including but not limited to the provision of footwear design and development, production management (including quality control) and logistics management service (the “**Restricted Business**”).

The Deed of Non-Competition does not apply if the Controlled Persons and Controlled Company in aggregate own any interest not exceeding five per cent. of the issued shares in any company conducting any Restricted Business (the “**Relevant Company**”), and the Relevant Company is listed in any recognised stock exchange (as defined under the SFO), notwithstanding that the business conducted by the Relevant Company constitutes or might constitute competition with the business of our Company or any of our subsidiaries, provided that (i) the shareholding of any one holder (and his close associate, if applicable) in the Relevant Company is more than that of the Controlled Persons and the Controlled Company in aggregate at any time; and (ii) the total number of the relevant Covenantors’ representatives on the board of directors of the Relevant Company is not significantly disproportionate with respect to his shareholding in the Relevant Company.

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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### 2. New business opportunity

If any Covenantor and/or any Controlled Company or their respective close associates is offered or becomes aware of any business opportunity directly or indirectly to engage in or own a Restricted Business (the “**New Business Opportunity**”):

- (a) he/it shall within 10 days notify our Company of such New Business Opportunity in writing and refer the same to our Company for consideration, and shall provide the relevant information to our Company in order to enable us to make an informed assessment of such opportunity; and
- (b) he/it shall not, and shall procure that his Controlled Persons or Controlled Companies not to, invest or participate in any project and New Business Opportunity, unless such project and New Business Opportunity shall have been rejected by our Company and the principal terms of which the Covenantor or his/its Controlled Persons or Controlled Companies invest or participate in are no more favourable than those made available to our Company.

A Covenantor may only engage in the New Business Opportunity if (i) a notice is received by the Covenantor from our Company confirming that the New Business Opportunity is not accepted and/or does not constitute competition with the Restricted Business (the “**Non-acceptance Notice**”); or (ii) the Non-acceptance Notice is not received by the Covenantor within 30 days after the proposal of the New Business Opportunity is received by our Company.

Any Director who has an actual or potential material interest in the New Business Opportunity shall abstain from attending (unless their attendance is specifically requested by the remaining non-interested Directors) and voting at, and shall not count towards the quorum for, any meeting or part of a meeting convened to consider such New Business Opportunity.

Our independent non-executive Directors will be responsible for reviewing and considering whether or not to take up a New Business Opportunity referred by a Covenantor or Controlled Company or whether or not the New Business Opportunity constitutes competition with the Restricted Business and such decisions will be made by our independent non-executive Directors. The factors that will be taken into consideration in making the decision include whether it is in line with the overall interests of our Shareholders.

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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### 3. Corporate governance measures

In order to ensure the performance of the above non-competition undertakings, each of the Covenantors will:

- (a) promptly provide to our Company such information as our Company may from time to time reasonably request to ascertain compliance by the Covenantor of his/its obligations under this Deed of Non-Competition including, without limitation, a written confirmation in respect of compliance by him/it with the terms of the Deed of Non-Competition;
- (b) allow the independent non-executive Directors to review, at least on an annual basis, the compliance with the Deed of Non-Competition by the Covenantor, the options, pre-emptive rights or first rights of refusals (if any) provided by the Covenantor on his/its existing or future competing businesses;
- (c) undertake to provide all information necessary for the annual review by the independent non-executive Directors and the enforcement of the Deed of Non-Competition;
- (d) allow our Company to disclose to the public either in the annual report of our Company or by way of announcements in relation to decisions on matters reviewed by our independent non-executive Directors relating to the compliance of the terms of the Deed of Non-Competition and the enforcement of it;
- (e) where our independent non-executive Directors shall deem fit, make a declaration in relation to the compliance of the terms of the Deed of Non-Competition in the annual report of our Company, and ensure that the disclosure of information relating to compliance with the terms of the Deed of Non-Competition and the enforcement of it are in accordance with the requirements of the GEM Listing Rules;
- (f) procure that the Board shall operate in accordance with the Articles which require the interested Director not to vote (nor be counted in the quorum) on any resolution of the Board approving any contract or arrangement or other proposal in which he or any of his close associates is materially interested; and
- (g) that during the period when the Deed of Non-Competition is in force, fully and effectually indemnify our Company against any costs and expenses incurred as a result of any breach on the part of such Covenantor of any statement, warrant or undertaking made under the Deed of Non-Competition.

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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The Deed of Non-Competition and the rights and obligations thereunder are conditional upon (a) the Stock Exchange granting the [REDACTED] of, and the permission to [REDACTED], the Shares, as described in this [REDACTED], and (b) the [REDACTED] and [REDACTED] in the Shares on GEM taking place.

As the Covenantors have given non-competition undertakings in favour of our Company, and none of them have interests in other businesses that compete or are likely to compete with the business of our Group, our Directors are of the view that they are capable of carrying on our Group’s business independently of the Covenantors following the [REDACTED].

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## CONNECTED TRANSACTIONS

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### DISCONTINUED CONNECTED TRANSACTIONS

During the Track Record Period, we entered into a number of transactions with our connected persons which constituted connected transactions within the meaning of the GEM Listing Rules but these transactions will not continue after [REDACTED].

#### Commissions paid to Mr. KW Ho

During the Track Record Period, as an incentive to Mr. KW Ho, our Controlling Shareholder and executive Director, to develop the business of our Group, Ever Smart paid 1.0% of its monthly invoiced sales revenue as commissions to Mr. KW Ho. For each of the three years ended 31 December 2015, the amount of commissions paid to Mr. KW Ho were approximately HK\$2.9 million, HK\$2.5 million and HK\$1.9 million, respectively. The aforesaid transactions had ceased in August 2015 and will not continue after [REDACTED].

#### Trademark licence agreement between Ever Smart and Peishida

In 2014, Ever Smart entered into a trademark licence agreement (the “**Trademark Licence Agreement**”) with Peishida, a company owned as to 60% by Mr. Fang, the former director and legal representative of Tin Da, and as to 40% by an Independent Third Party. Pursuant to the Trademark Licence Agreement and a letter of confirmation executed by the then shareholders of Peishida dated 29 May 2015, Ever Smart granted to Peishida a non-exclusive licence to use the trademarks *D&S*, *Dodge & Sweeney* and  for manufacturing and sale of footwear for a period from 1 March 2014 to 30 September 2014 in return for a total royalty of RMB5,000. The licencing arrangement had ceased after the expiry of the Trademark Licence Agreement on 30 September 2014.

Peishida was dissolved in the PRC in February 2015.

#### Transactions between D&S and Peishida

From April 2014 to September 2014, D&S purchased certain footwear from Peishida at the aggregate amount of HK\$5,913, for the retail sale of casual footwear for men and women on a trial basis. These transactions had ceased after September 2014 and will not continue after [REDACTED].

#### Commissions paid to Skynice

During the Track Record Period, Skynice, a company wholly owned by Mr. KC Ho, our Controlling Shareholder, agreed to promote and sell the products supplied by Ever Smart. In return, Ever Smart agreed to pay 0.5% of its monthly invoiced sales revenue as commissions to Skynice. For the year ended 31 December 2013, the amount of commissions paid to Skynice was approximately HK\$1.5 million. These transactions had ceased after December 2013 and will not continue after [REDACTED].

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## CONNECTED TRANSACTIONS

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### **Commissions paid to Alliance Footwear**

During the Track Record Period, as an incentive to Mr. Adam Rogers, a former director and shareholder of Alliance, to develop the business of Alliance, Alliance paid 5.0% of its monthly invoiced sales revenue as commissions to Alliance Footwear, a company owned as to 50% by Mr. Adam Rogers and as to 50% by Mrs. Elizabeth Jane Rogers. For the year ended 31 December 2013, the amount of commissions paid to Alliance Footwear was approximately HK\$687,000. No commission was paid to Alliance Footwear for the year ended 31 December 2014. Following the cessation of Mr. Adam Rogers being a director of Alliance in November 2014, these transactions had ceased.

### **Funds advanced to Mr. Fang from Ever Smart**

As at 31 December 2013, 31 December 2014 and 30 June 2015, the funds advanced to Mr. Fang from Ever Smart amounted to approximately HK\$5.8 million, HK\$5.8 million and HK\$5.8 million respectively. The said funds advanced to Mr. Fang in Hong Kong were for his personal use, without charging interest. No security over the assets of Mr. Fang was granted in respect of such funds. All funds advanced to Mr. Fang from Ever Smart had been fully repaid by Mr. Fang by 31 July 2015. The aforesaid advances will not continue after [REDACTED].

### **Funds advanced to Tin Da from Mr. Fang**

As at 31 December 2013, 31 December 2014 and 30 June 2015, the funds advanced to Tin Da from Mr. Fang amounted to approximately RMB4.6 million, RMB4.6 million and RMB4.6 million respectively. The funds were advanced to Tin Da directly or indirectly from Mr. Fang for the business operation of Tin Da without charging interest. No security over the assets of our Group was granted in respect of the funds advanced to Tin Da. Such funds advanced to Tin Da had been fully repaid by Tin Da by 31 July 2015. The aforesaid advances will not continue after [REDACTED].

## SUBSTANTIAL SHAREHOLDERS

### SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, immediately following completion of the [REDACTED] and the Capitalisation Issue (without taking into account of the Shares which may be issued pursuant to the exercise of any options that may be granted under the Share Option Scheme), each of the following persons will have an interest or short position in the 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 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:

| Name                        | Capacity/Nature of Interest          | Number of Shares held immediately after completion of the [REDACTED] and the Capitalisation Issue | Percentage of interests in our Company immediately after completion of the [REDACTED] and the Capitalisation Issue |
|-----------------------------|--------------------------------------|---|--|
| Mr. KW Ho ( <i>Note</i> )   | Interest in a controlled corporation | [REDACTED] Shares   | [REDACTED]%  |
| Asia Matrix ( <i>Note</i> ) | Beneficial owner                     | [REDACTED] Shares   | [REDACTED]%  |

*Note:* Asia Matrix is a registered owner holding [REDACTED]% shareholding interest in our Company. The entire issued share capital of Asia Matrix is owned by Mr. KW Ho. Under the SFO, Mr. KW Ho is deemed to be interested in all the Shares registered in the name of Asia Matrix. In light of the acting in concert arrangements between Mr. KC Ho and Mr. KW Ho, Mr. KC Ho is deemed to be a Controlling Shareholder for the purpose of the GEM Listing Rules. For details of the acting in concert arrangements, please refer to the section headed “History, Reorganisation and corporate structure – Parties acting in concert” in this [REDACTED].

Save as disclosed herein, our Directors are not aware of any person who will, immediately following completion of the [REDACTED] and the Capitalisation Issue (without taking into account of the Shares which may be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme), have an interest or short position in the 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 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 member of our Group.



## SHARE CAPITAL

### SHARE CAPITAL

The following is a description of the share capital of our Company in issue and to be issued as fully paid or credited as fully paid immediately following the Capitalisation Issue and the [REDACTED], without taking into account any Shares which may be issued pursuant to the exercise of options that may be granted under the Share Option Scheme:

*Authorised share capital* *HK\$*

|                      |                         |                   |
|----------------------|-------------------------|-------------------|
| <u>1,000,000,000</u> | Shares of HK\$0.01 each | <u>10,000,000</u> |
|----------------------|-------------------------|-------------------|

*Issued and to be issued, fully paid or credited as fully paid*

|                   |  |                   |
|-------------------|--|-------------------|
| 1,000             | Shares in issue as at the date of this [REDACTED]        | 10                |
| [REDACTED]        | Shares to be issued pursuant to the Capitalisation Issue | [REDACTED]        |
| <u>[REDACTED]</u> | Shares to be issued pursuant to the [REDACTED]           | <u>[REDACTED]</u> |

|  |   |                   |
|--|---|-------------------|
|  | Total Shares issued and to be issued upon completion of the Capitalisation Issue and the [REDACTED] | <u>[REDACTED]</u> |
|--|---|-------------------|

### ASSUMPTIONS

The above table assumes that the Capitalisation Issue and the [REDACTED] become unconditional and the issue of Shares pursuant thereto are made as described herein. It takes no account of Shares which may be allotted and issued upon the exercise of the options which may be granted under the Share Option Scheme or any Shares which may be allotted and issued or repurchased by our Company pursuant to the general mandates for the allotment and issue or repurchase of Shares granted to our Directors as referred to below or otherwise.

### MINIMUM PUBLIC FLOAT

Pursuant to Rule 11.23(7) of the GEM Listing Rules, at the time of [REDACTED] and at all times thereafter, our Company must maintain the “minimum prescribed percentage” of 25% of the total issued share capital of our Company in the hands of the public (as defined in the GEM Listing Rules).

### RANKING

The [REDACTED] will rank *pari passu* in all respects with all other Shares now in issue or to be issued as mentioned in this [REDACTED], and will rank in full for all dividends and other distributions hereafter declared, paid or made on the Shares in respect of a record date which falls after the date of this [REDACTED] save for any entitlement under the Capitalisation Issue.

Except as disclosed in this [REDACTED], no share or loan capital of our Company or any of our subsidiaries is under any option or is agreed conditionally or unconditionally to be put under any option.

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## SHARE CAPITAL

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### SHARE OPTION SCHEME

We have conditionally adopted the Share Option Scheme on 11 May 2016. The principal terms of the Share Option Scheme are summarised in the section headed "D. Share Option Scheme" in Appendix IV to this [REDACTED]. As at the Latest Practicable Date, no option had been granted under the Share Option Scheme.

### CAPITALISATION ISSUE

Pursuant to the written resolutions of the sole Shareholder passed on 11 May 2016, subject to the share premium account of our Company being credited as a result of the issue of the [REDACTED] pursuant to the [REDACTED], our Directors were authorised to allot and issue a total of [REDACTED] Shares credited as fully paid at par to the holders of shares on the register of members of our Company at the close of business on 11 May 2016 (or as they may direct) in proportion to their respective shareholdings (save that no Shareholder shall be entitled to be allotted or issued any fraction of a Share) by way of Capitalisation of the sum of HK\$[REDACTED] standing to the credit of the share premium account of our Company, and the Shares to be allotted and issued pursuant to this resolution shall rank *pari passu* in all respects with the existing issued Shares (other than the right to participate in the Capitalisation Issue).

### GENERAL MANDATE TO ISSUE SHARES

Subject to the [REDACTED] becoming unconditional, our Directors have been granted a general unconditional mandate to allot, issue and deal with unissued Shares with an aggregate number of not exceeding 20% of the number of issued Shares immediately following completion of the [REDACTED] and the Capitalisation Issue (without taking into account any Shares which may be granted under the Share Option Scheme) and the aggregate number of Shares repurchased by our Company (if any) pursuant to the general mandate to repurchase Shares as described below.

Our Directors may, in addition to the Shares which they are authorised to issue under the mandate, allot, issue and deal in the Shares pursuant to a rights issue, an issue of Shares pursuant to the exercise of subscription rights attaching to any warrants or convertible securities of our Company, scrip dividends or similar arrangements or the exercise of options granted under the Share Option Schemes or any other option scheme or similar arrangement for the time being adopted.

This mandate shall remain in effect until whichever is the earliest of:

- (i) the conclusion of the next annual general meeting of our Company;
- (ii) the expiration of the period within which the next annual general meeting of our Company is required to be held by the Articles of Association or any other applicable laws of the Cayman Islands; or

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## SHARE CAPITAL

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- (iii) the passing of an ordinary resolution of our Shareholders in general meeting revoking, varying or renewing such mandate.

For further details of the general mandate for the allotment and issue of Shares, please refer to the section headed “A. Further information about our Company and our subsidiaries – 3. Written resolutions of the sole Shareholder” in Appendix IV to this [REDACTED].

### GENERAL MANDATE TO REPURCHASE SHARES

Subject to the [REDACTED] 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 number of not more than 10% of the aggregate number of issued Shares immediately following completion of the [REDACTED] and the Capitalisation Issue (without taking into account any Shares which may be issued upon the exercise of any options that may be granted under the Share Option Scheme).

This mandate relates only to repurchases made on the Stock Exchange or on any other stock exchange on which the Shares are [REDACTED] (and which is recognized by the SFC and the Stock Exchange for this purpose), and which are made in accordance with all applicable laws and the GEM Listing Rules. A summary of the relevant GEM Listing Rules is set out in the section headed “A. Further information about our Company and our subsidiaries – 6. Repurchase by our Company of its own securities” in Appendix IV to this [REDACTED].

This mandate shall remain in effect until whichever is the earliest of:

- (i) the conclusion of the next annual general meeting of our Company;
- (ii) the expiration of the period within which the next annual general meeting of our Company is required to be held by the Articles of Association or any other applicable laws of the Cayman Islands; or
- (iii) the passing of an ordinary resolution of our Shareholders in general meeting revoking, varying or renewing such mandate.

For further details of the general mandate for the repurchase of Shares, see “Statutory and general information – A. Further Information about our Company and our subsidiaries – 3. Written resolutions of the sole Shareholder” in Appendix IV to this [REDACTED].

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## FINANCIAL INFORMATION

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*The following discussion and analysis should be read in conjunction with the audited consolidated financial statements of our Company for the three financial years ended 31 December 2015, together with the related notes thereto included in the Accountants’ Report set out in Appendix I to this [REDACTED]. The consolidated financial statements of our Company have been prepared in accordance with HKFRSs, which differ in certain significant respects from generally accepted accounting principles in certain other countries. For further information, see “Appendix I – Accountants’ Report”. Any discrepancies in any table or elsewhere in this [REDACTED] between totals and sums of amounts listed herein are due to rounding.*

*This discussion and analysis contains forward-looking statements that involve risks and uncertainties. Factors that might cause future results to differ significantly from those projected in the forward-looking statements include, but are not limited to, those discussed below and elsewhere in the [REDACTED], particularly in the section headed “Risk factors” in this [REDACTED].*

### OVERVIEW

Our Group is principally engaged in the provision of footwear design and development, production management (including quality control) and logistics management service. Over the years of our operations since 2009, we have built a diverse global customer portfolio comprising mainly international wholesalers and retailers which are brand owners and/or licensees of formal and casual footwear. During the Track Record Period, almost all of our footwear was exported overseas with shipment destinations covering more than 30 countries including Australia, United Kingdom, Chile, New Zealand, United Arab Emirates, the US and Russia.

By collaborating with our customers, we leverage our talent, extensive international footwear and fashion exposure and experience to accommodate their needs (including design preferences, footwear styles and application of materials) in view of market trends. Our designers will provide our customers with product designs created either by themselves or based on our customers’ design ideas and concepts. When our customers have their designated designs, our design team will, based on product specifications and requirements provided by our customers, offer design ideas and suggestions on product improvements. Since our inception, we have strategically focused on providing value added services to our customers. Having considered the capital investment in establishing and running a footwear factory, we choose to outsource footwear manufacturing strategically to our footwear suppliers instead of building our own footwear factories. We have established reliable and long term relationships with a number of quality footwear suppliers located in Wenzhou, Fujian and Dongguan which are major footwear manufacturing bases in China. To ensure the quality of footwear, we closely monitor product quality throughout the production process. Our full span quality control covers raw material examination, footwear production process monitoring, finished footwear checking and testing, and packaging inspection. This ensures that our footwear can meet the high quality demands of our customers and consumers. Some of our customers will also send their quality control staff or designated inspection companies to inspect the finished footwear before shipment. We also manage the logistics arrangements

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## FINANCIAL INFORMATION

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of finished footwear and, after product delivery, liaise with our customers for after-sale feedback on our products and services so that we can continuously refine and improve our standards.

### **MAJOR FACTORS AFFECTING OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITION**

The major factors which we believe may affect our results of operations and financial condition include:

#### **Demand from our major customers**

Our business depends largely on demand from our customers, in particular our major customers. Sales to our five largest customers for the three years ended 31 December 2015 amounted to approximately HK\$241.0 million, HK\$162.9 million and HK\$229.6 million, respectively, which accounted for approximately 79.4%, 66.8% and 75.9%, respectively, of our total revenue for the corresponding year. If any of these major customers were to substantially reduce the volume and/or the value of the orders they placed with us or to cease to conduct business with us as we have not entered into any long-term purchase agreement with our customers, there is no assurance that (i) our Group would be able to obtain orders from new customers or other existing customers to make up for such loss of sales; or (ii) even if we would be able to obtain other orders, they would be on commercially comparable terms. In light of the above, our Group’s operations and financial result may be adversely affected.

#### **Production outsourcing**

We outsource footwear manufacturing to our footwear suppliers instead of building our own footwear factories since our inception. Our footwear suppliers play an important role in our footwear supply chain. Our purchases from our five largest suppliers (all being our footwear suppliers) for the three years ended 31 December 2015 amounted to approximately HK\$201.0 million, HK\$156.8 million and HK\$194.0 million, respectively, which accounted for approximately 79.4%, 76.4% and 76.8%, respectively, of our total purchases for the corresponding year. Any significant fluctuations in raw material costs and labour costs of our footwear suppliers could affect the purchase cost of footwear paid by us and thus our profitability, in case that we are unable to pass on any increase in the costs to our customers. In addition, as we rely on our footwear suppliers for production of our products, any delay in completing the production and/or producing products with unsatisfactory quality could adversely affect our operations and financial results.

#### **Fluctuations on foreign exchange rates**

Our revenue is denominated in USD due to the export-oriented nature of our business while our payment to our footwear suppliers is substantially made in USD. On the other hand, our footwear suppliers pay for their production costs mainly in RMB. Hence, any appreciation of RMB against USD would reduce the payment received by our footwear suppliers in terms of RMB. In such event, our footwear suppliers may request us to increase the manufacturing prices in order to pass the increased costs to us. Our results will be

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## FINANCIAL INFORMATION

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negatively affected to the extent that we are unable to transfer all the increased costs to our customers when our purchase costs rise. Further, in the event of appreciation of USD against the currencies of our export countries, the price of our footwear in terms of the respective currency would increase. If our customers do not have appropriate hedging arrangements in place or are unable to pass the price increase onto the end customers, they may request us to reduce the selling prices to maintain their profit margin. Under such circumstances, we may not have adequate bargaining power to maintain our profit margin and if we are unable to reduce the costs of purchase from our suppliers in order to reduce the selling price to our customers in USD, our customers may reduce their demand for our footwear if they do not accept our price quotations. In such event, our results of operations will be adversely affected.

### **Change of global and regional economic conditions**

During the Track Record Period, almost all of our footwear was exported overseas. Sales to overseas customers accounted for approximately 98.8%, 97.7% and 98.5% of our total revenue for the three years ended 31 December 2015, respectively. Any change in economic conditions of our export countries, such as interest rates, currency exchange rates, recession, inflation, deflation, political uncertainty, taxation, stock market performance, unemployment level and general consumer confidence, may affect the volume of purchase of our customers. Any change in the sales orders from our customers in our export countries resulting from any change in global or regional economic conditions may affect our business operations and financial performance.

### **BASIS OF PRESENTATION**

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability on 6 February 2015. Upon completion of the Reorganisation, as more fully explained in the section headed “History, Reorganisation and corporate structure – Reorganisation” in this [REDACTED], our Company became the holding company of our Group. The ultimate controlling shareholder of our Group is Mr. KW Ho who has historically and throughout the Track Record Period been the Controlling Shareholder of our Group. Mr. KC Ho is deemed to be a Controlling Shareholder for the purposes of the GEM Listing Rules. For details, please refer to the section headed “Relationship with Controlling Shareholders – The Controlling Shareholders” in this [REDACTED]. Our Group comprising our Company and its subsidiaries resulting from the Reorganisation is regarded as a continuing entity. Accordingly, the financial information relating to our Group for the Track Record Period has been prepared as if our Company had always been the holding company of our Group.

The consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the Track Record Period have been prepared to present the results, changes in equity and cash flows of the companies now comprising our Group, as if our group structure upon the completion of the Reorganisation had been in existence throughout the Track Record Period or since the respective dates of incorporation where this is a shorter period. The consolidated statements of financial position of our Group as at 31 December 2013, 31

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December 2014 and 31 December 2015 have been prepared to present the assets and liabilities of the companies now comprising our Group as if the current group structure had been in existence at those dates.

### SIGNIFICANT ACCOUNTING POLICIES

The financial information set out in the Accountants' Report in Appendix I to this [REDACTED] have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants. We have identified certain accounting policies that are significant to the preparation of our financial information and are important in understanding our financial condition and results of operations. These significant accounting policies are set out in note 3 to the Accountants' Report contained in Appendix I to this [REDACTED]. The following paragraphs discuss certain significant policies applied in preparing our financial information.

#### *Revenue recognition*

Revenue is measured at the fair value of the consideration received or receivable.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- our Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- our Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to our Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to our Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

#### *Foreign currencies*

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing at the dates of the transactions. At the end of



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each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the financial information, the assets and liabilities of our Group’s foreign operations are translated into the presentation currency of our Group (i.e. Hong Kong dollars) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve.

On the disposal of a foreign operation (i.e. a disposal of our Group’s entire interest in a foreign operation and a disposal involving loss of control over a subsidiary that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owner of our Company are reclassified to profit or loss.

### ***Taxation***

Income tax expense represents the sum of the tax currently payable and deferred tax. The tax currently payable is based on taxable profit for the year. Taxable profit differs from “profit before taxation” as reported in the consolidated statements of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. Our Group’s current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial information and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where our Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments

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are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which our Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. For the purposes of measuring deferred tax liabilities and deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. Current and deferred tax are recognised in profit or loss.

### *Impairment losses*

At the end of the reporting period, our Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, our Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have

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been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

### SUMMARY OF RESULTS OF OPERATIONS OF OUR GROUP

The following table sets forth selected financial information for the years indicated.

|   | <b>For the year<br/>ended 31 December</b> |                  |                  |
|---|---|------------------|------------------|
|   | <b>2013</b>                               | <b>2014</b>      | <b>2015</b>      |
|   | <i>HK\$'000</i>                           | <i>HK\$'000</i>  | <i>HK\$'000</i>  |
| Revenue                                     | 303,439                                   | 243,742          | 302,672          |
| Cost of sales                               | <u>(268,342)</u>                          | <u>(213,278)</u> | <u>(261,474)</u> |
| Gross profit                                | 35,097                                    | 30,464           | 41,198           |
| Other income                                | 2,196                                     | 5,582            | 2,733            |
| Other expenses                              | (2,274)                                   | (3,159)          | (1,784)          |
| Other gains and losses                      | (1,698)                                   | 324              | (35)             |
| Selling and distribution expenses           | (7,310)                                   | (3,783)          | (7,453)          |
| Administrative expenses                     | (12,771)                                  | (15,015)         | (16,920)         |
| [REDACTED] expenses                         | [REDACTED]                                | [REDACTED]       | [REDACTED]       |
| Finance costs                               | <u>(295)</u>                              | <u>(703)</u>     | <u>(1,167)</u>   |
| Profit before taxation                      | 12,945                                    | 11,354           | 9,287            |
| Income tax expense                          | <u>(2,784)</u>                            | <u>(2,950)</u>   | <u>(2,851)</u>   |
| Profit for the year                         | <u>10,161</u>                             | <u>8,404</u>     | <u>6,436</u>     |
| Profit (loss) for the year attributable to: |   |                  |                  |
| Owner of the Company                        | 10,549                                    | 8,406            | 6,436            |
| Non-controlling interests                   | <u>(388)</u>                              | <u>(2)</u>       | <u>—</u>         |
|   | <u>10,161</u>                             | <u>8,404</u>     | <u>6,436</u>     |

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### DISCUSSION OF SELECTED COMPONENTS OF OUR RESULTS OF OPERATIONS

#### Revenue

Our revenue is derived from the sale of formal and casual footwear for men, women and children. We have the flexibility to provide our customers with a wide range of products. The sales of different footwear category for each period depend on the product order mix from our customers.

Set out below is the revenue breakdown of our footwear during the years indicated:

|                            | For the year ended<br>31 December |              |                |              |                |              |
|----------------------------|-----------------------------------|--------------|----------------|--------------|----------------|--------------|
|                            | 2013                              |              | 2014           |              | 2015           |              |
|                            | HK\$'000                          | %            | HK\$'000       | %            | HK\$'000       | %            |
| Men's formal footwear      | 97,893                            | 32.3         | 114,578        | 47.0         | 152,728        | 50.5         |
| Men's casual footwear      | 25,226                            | 8.3          | 44,166         | 18.1         | 48,848         | 16.1         |
| Children's formal footwear | 42,681                            | 14.1         | 43,533         | 17.9         | 67,376         | 22.3         |
| Children's casual footwear | 126,058                           | 41.5         | 24,081         | 9.9          | 17,063         | 5.6          |
| Women's casual footwear    | 11,581                            | 3.8          | 17,384         | 7.1          | 16,349         | 5.4          |
| Women's formal footwear    | —                                 | —            | —              | —            | 308            | 0.1          |
| Total                      | <u>303,439</u>                    | <u>100.0</u> | <u>243,742</u> | <u>100.0</u> | <u>302,672</u> | <u>100.0</u> |

During the Track Record Period, men's and children's footwear were the major footwear sold by us, accounting for approximately 96.2%, 92.9% and 94.5%, respectively, of our total revenue.

Our sales of men's formal footwear increased by approximately 17.0% for the year ended 31 December 2014 as compared to the previous year, resulting primarily from the commencement of sales of formal footwear made of PU for men in 2014. For the year ended 31 December 2015, our sales of men's formal footwear increased by approximately 33.3% as compared to the previous year mainly as a result of orders received for additional international brands.

We recorded an increase in sales of men's casual footwear by approximately 75.1% for the year ended 31 December 2014 as compared to the previous year which was primarily attributable to the increase in orders received from our customers in view of the expansion of their branded products as well as their anticipation of consumers' preferences. For the year ended 31 December 2015, our Group was able to further increase our sales of men's casual footwear by approximately 10.6% as compared to the year ended 31 December 2014.

Our sales of children's formal footwear increased slightly by approximately 2.0% for the year ended 31 December 2014 as compared to the year ended 31 December 2013. For the year ended 31 December 2015, we recorded a significant increase in sales of children's

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formal footwear of approximately 54.8% as compared to the previous year, principally resulting from the effort of our design team in providing a wide range of designs of children's formal footwear to our customers during the year.

Our Group recorded a decrease in sales of children's casual footwear by approximately 80.9% for the year ended 31 December 2014 as compared to the previous year mainly resulting from our decision to terminate the business relationship with a Russian customer, which was a wholesaler of children's casual footwear, in early 2014. For the year ended 31 December 2015, our sales of children's casual footwear further dropped by approximately 29.1% as compared to the previous year as the product mix of orders from our customers shifted mainly to men's and children's formal footwear.

Our sales of women's casual footwear increased by approximately 50.1% for the year ended 31 December 2014 as compared to the year ended 31 December 2013 mainly due to the increase in orders received from our customers in view of the expansion of their branded products and their anticipation of consumer preferences. During the year ended 31 December 2015, we recorded a decrease in sales of women's casual footwear of approximately 6.0% as compared to the previous year as the product mix of orders from our customers shifted mainly to men's and children's formal footwear.

Further, we commenced the sale of women's formal footwear during the year ended 31 December 2015.

Over the years of our operations since 2009, we have successfully built a diverse global customer portfolio comprising mainly international wholesales and retailers, which are brand owners and/or licensees of formal and casual footwear. During the Track Record Period, almost all of our footwear was exported overseas with shipment destinations covering more than 30 countries including Australia, United Kingdom, Chile, New Zealand, United Arab Emirates, United States and Russia. Sales to overseas customers accounted for approximately 98.8%, 97.7% and 98.5%, respectively, of our total revenue for the Track Record Period, with a major portion of revenue being derived from sales to customers in Australia and United Kingdom which in aggregate contributed approximately 32.5%, 54.0% and 64.6%, respectively, to our total revenue.

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The table below sets forth our revenue breakdown by shipment destination of the footwear products we sold to our customers for the years indicated.

|                      | For the year ended |              |                |              |                |              |
|----------------------|--------------------|--------------|----------------|--------------|----------------|--------------|
|                      | 31 December        |              |                |              |                |              |
|                      | 2013               |              | 2014           |              | 2015           |              |
|                      | HK\$'000           | %            | HK\$'000       | %            | HK\$'000       | %            |
| Australia            | 88,141             | 29.0         | 96,641         | 39.6         | 110,345        | 36.5         |
| United Kingdom       | 10,512             | 3.5          | 35,021         | 14.4         | 85,020         | 28.1         |
| Chile                | 15,022             | 5.0          | 15,411         | 6.3          | 17,598         | 5.8          |
| Belgium              | 3,823              | 1.3          | 9,389          | 3.9          | 11,738         | 3.9          |
| New Zealand          | 9,850              | 3.2          | 13,863         | 5.7          | 10,698         | 3.5          |
| United Arab Emirates | 8,928              | 2.9          | 13,180         | 5.4          | 7,582          | 2.5          |
| United States        | 10,754             | 3.6          | 11,152         | 4.6          | 9,722          | 3.2          |
| Russia               | 94,962             | 31.3         | 1,220          | 0.5          | –              | –            |
| Other countries      | 61,447             | 20.2         | 47,865         | 19.6         | 49,969         | 16.5         |
| <b>Total</b>         | <b>303,439</b>     | <b>100.0</b> | <b>243,742</b> | <b>100.0</b> | <b>302,672</b> | <b>100.0</b> |

*Note:* During the Track Record Period, other countries included Hong Kong, El Salvador, Cyprus, Peru, Singapore, Spain, Japan, Malaysia, Argentina, Pakistan, Colombia, Philippines, Thailand, Paraguay, Caribbean, the PRC, Uruguay, Portugal, Taiwan, Norway, South Korea, Israel, Sweden, Greece, Venezuela, India, South Africa, Bangladesh, Ireland, Turkey, Indonesia, Netherlands, Italy, Canada, Mexico and Bolivia.

During 2014, we were able to expand our sales to international branded customers and diversify our customer base in developed countries, as reflected in the increase in our sales to customers with shipment destinations in Australia, United Kingdom, Belgium, New Zealand, United Arab Emirates and the US by approximately 9.6%, 233.2%, 145.6%, 40.7%, 47.6% and 3.7%, respectively, for the year ended 31 December 2014 as compared to the previous year. In early 2014, we decided to terminate the business relationship with a Russian customer in view of its increasing credit risk resulting from the abrupt devaluation of Ruble and economic instability in Russia. As a result, our sales to Russia decreased by approximately 98.7% for the year ended 31 December 2014 as compared to the previous year.

During the year ended 31 December 2015, owing to the continuous effort of our Group in expanding our customer base as well as establishing solid business relationship with our customers, we recorded an increase in our sales to countries such as Australia, United Kingdom, Chile and Belgium of approximately 14.2%, 142.8%, 14.2% and 25.0%, respectively, as compared to the previous year. During the same year, our sales to New Zealand and United Arab Emirates decreased by approximately 22.8% and 42.5%, respectively, as compared to the previous year, mainly resulting from our customers taking a more prudent approach in placing purchaser orders in view of the slowdown of the respective economies of these two countries. According to the Frost & Sullivan Report, the nominal GDP of New Zealand is forecasted to decrease from approximately USD0.2 trillion in 2014 to approximately USD0.17 trillion in 2015, while the nominal GDP of United Arab

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Emirates is forecasted to decrease from approximately USD0.4 trillion in 2014 to approximately USD0.34 trillion in 2015. Our sales to the US decreased by approximately 12.8% for the year ended 31 December 2015 as compared to the previous year, which was principally due to reduction in purchase orders from one of our US customers for children's footwear during 2015 which, as our Directors believe, was mainly due to such customer adopting a more conservative market strategy in relation to children's footwear. Our Group will continue to maintain close working relationship with our customers in the US to understand their latest business development and product requirements.

### Cost of sales

Our cost of sales comprises purchase cost, staff costs and other costs. The following table sets forth a breakdown of our cost of sales during the years indicated:

|               | For the year ended    |                     |                       |                     |                       |                     |
|---------------|-----------------------|---------------------|-----------------------|---------------------|-----------------------|---------------------|
|               | 2013                  |                     | 31 December           |                     | 2015                  |                     |
|               | HK\$'000              | %                   | HK\$'000              | %                   | HK\$'000              | %                   |
| Purchase cost | 253,244               | 94.4                | 205,238               | 96.2                | 252,637               | 96.6                |
| Staff costs   | 7,827                 | 2.9                 | 5,383                 | 2.5                 | 6,061                 | 2.3                 |
| Other costs   | <u>7,271</u>          | <u>2.7</u>          | <u>2,657</u>          | <u>1.3</u>          | <u>2,776</u>          | <u>1.1</u>          |
| <b>Total</b>  | <b><u>268,342</u></b> | <b><u>100.0</u></b> | <b><u>213,278</u></b> | <b><u>100.0</u></b> | <b><u>261,474</u></b> | <b><u>100.0</u></b> |

We have strategically focused on providing value added services to our customers and choose to outsource footwear manufacturing to our footwear suppliers. Purchase cost is the major component of our cost of sales representing the costs of products charged by our footwear suppliers (determined on the basis of a number of factors including the volume of orders, the timing of delivery, the complexity and number of steps involved in the production process and the cost of raw materials purchased) which accounted for approximately 94.4%, 96.2% and 96.6% of our total cost of sales for the three years ended 31 December 2015, respectively.

Staff costs represent salaries and other benefits (including staff welfare and bonus) for our employees who were primarily responsible for merchandising, quality control, order processing and shipping.

Other costs mainly comprise (i) sample and molding fees paid in the pre-production stage; and (ii) other overhead including travelling expenses incurred by our merchandising and quality control staff in the provision of our footwear design and development, production management and logistics management service.



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### Gross profit and gross profit margin

We adopted a cost-plus model and our footwear is priced separately for each purchase order. The price of footwear we offer to our customers depends primarily on, among other things, production costs as quoted to us by our footwear suppliers, our Group’s expected margins, type of footwear products, complexity of production, the volume of orders and the timing of delivery of finished footwear. For each of the three years ended 31 December 2015, we recorded gross profit of approximately HK\$35.1 million, HK\$30.5 million and HK\$41.2 million, respectively, and gross profit margin of approximately 11.6%, 12.5% and 13.6%, respectively.

### Other income

The following table sets forth a breakdown of our other income during the years indicated:

|  | For the year ended |              |              |              |              |              |
|--|--------------------|--------------|--------------|--------------|--------------|--------------|
|  | 2013               |              | 31 December  |              | 2015         |              |
|  | 2013               |              | 2014         |              | 2015         |              |
|  | HK\$'000           | %            | HK\$'000     | %            | HK\$'000     | %            |
| Claims received                          | 1,415              | 64.4         | 4,300        | 77.0         | 1,594        | 58.3         |
| Accessory procurement income             | 456                | 20.8         | 799          | 14.3         | 21           | 0.8          |
| Samples income                           | 219                | 10.0         | 179          | 3.2          | 791          | 28.9         |
| Rental income from investment properties | –                  | –            | 176          | 3.2          | 96           | 3.5          |
| Interest income                          | 7                  | 0.3          | 8            | 0.1          | 8            | 0.3          |
| Miscellaneous income                     | 99                 | 4.5          | 120          | 2.2          | 223          | 8.2          |
| <b>Total</b>                             | <b>2,196</b>       | <b>100.0</b> | <b>5,582</b> | <b>100.0</b> | <b>2,733</b> | <b>100.0</b> |

Claims received mainly represent the compensation we receive from our footwear suppliers primarily for product quality defects and incorrect packaging reworks. During the year ended 31 December 2014, we received an one-off compensation payment from a Russian customer for the cancellation of purchase orders.

Accessory procurement income represents the income from sales of accessories such as bags and hangers.

Samples income represents the income received from our customers for the making of samples.

Rental income from investment properties represents income generated from leasing of properties to Independent Third Party(ies).

Interest income represents the interest derived from our bank deposits.

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Miscellaneous income mainly represents customs declaration handling fees and labelling fees charged to customers.

### Other expenses

The following table sets forth a breakdown of other expenses during the years indicated:

|             | For the year ended<br>31 December |              |                 |              |                 |              |
|-------------|-----------------------------------|--------------|-----------------|--------------|-----------------|--------------|
|             | 2013                              |              | 2014            |              | 2015            |              |
|             | <i>HK\$'000</i>                   | %            | <i>HK\$'000</i> | %            | <i>HK\$'000</i> | %            |
| Claims paid | 2,096                             | 92.2         | 2,839           | 89.9         | 1,708           | 95.7         |
| Donation    | <u>178</u>                        | <u>7.8</u>   | <u>320</u>      | <u>10.1</u>  | <u>76</u>       | <u>4.3</u>   |
| Total       | <u>2,274</u>                      | <u>100.0</u> | <u>3,159</u>    | <u>100.0</u> | <u>1,784</u>    | <u>100.0</u> |

Claims paid mainly represent the compensation paid to our customers for product quality defects and incorrect packaging reworks. During the year ended 31 December 2014, we paid claims to various footwear suppliers as an one-off compensation payment for the cancellation of manufacturing orders in relation to the cancellation of the corresponding purchases orders by a Russian customer.

Donations represent amounts donated to Hong Kong registered charities.

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### Other gains and losses

The following table sets forth a breakdown of other gains and losses during the years indicated:

|   | <b>For the year ended<br/>31 December</b> |                   |                    |
|---|---|-------------------|--------------------|
|   | <b>2013</b>                               | <b>2014</b>       | <b>2015</b>        |
|   | <i>HK\$'000</i>                           | <i>HK\$'000</i>   | <i>HK\$'000</i>    |
| Change in fair value of investment properties                                     | –   | 400               | 400                |
| Gain (loss) on disposal of property, plant and equipment                          | 474                                       | 97                | (444)              |
| Written off of amount due from a company owned by a former director of subsidiary | (1,250)                                   | –                 | –                  |
| Written off of amount due from a former director of a subsidiary                  | (387)                                     | –                 | –                  |
| Net foreign exchange (losses) gains   | (532)                                     | (173)             | 9                  |
| Others  | (3)                                       | –                 | –                  |
| <b>Total</b>  | <b><u>(1,698)</u></b>                     | <b><u>324</u></b> | <b><u>(35)</u></b> |

During the year ended 31 December 2014, our Group transferred its own-used properties to investment properties for leasing purpose in its accounts. These properties were finally disposed of by our Group in May 2015. Change in fair value of investment properties was recognised when such investment properties were revalued as at 31 December 2014 and upon disposal in May 2015.

Gain or loss on disposal of property, plant and equipment represents gain or loss recognised for the disposal of motor vehicles and demolition of leasehold improvement.

Our Group has written off an amount due from a former director of a subsidiary and an amount due from a company owned by such individual as at 31 December 2013, after considering his past contribution to our Group and assessing the recoverability of such amounts.

Net foreign exchange gains or losses represent the realised gains or losses on foreign exchange at the time of recording of sales and purchases and settlement of trade receivables and payables under normal business operation.

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### Selling and distribution expenses

The following table sets forth a breakdown of our selling and distribution expenses during the years indicated:

|                           | For the year ended |              |                     |              |              |              |
|---------------------------|--------------------|--------------|---------------------|--------------|--------------|--------------|
|                           | 2013               |              | 31 December<br>2014 |              | 2015         |              |
|                           | HK\$'000           | %            | HK\$'000            | %            | HK\$'000     | %            |
| Commissions and fees paid | 3,427              | 46.9         | 1,543               | 40.8         | 1,465        | 19.7         |
| Staff costs               | 908                | 12.4         | 1,335               | 35.3         | 2,569        | 34.5         |
| Freight and insurance     | –                  | –            | –                   | –            | 1,240        | 16.6         |
| Entertainment             | 1,663              | 22.7         | 248                 | 6.6          | 1,425        | 19.2         |
| Travelling                | 1,280              | 17.5         | 633                 | 16.7         | 742          | 9.9          |
| Others                    | 32                 | 0.5          | 24                  | 0.6          | 12           | 0.1          |
| <b>Total</b>              | <b>7,310</b>       | <b>100.0</b> | <b>3,783</b>        | <b>100.0</b> | <b>7,453</b> | <b>100.0</b> |

Selling and distribution expenses mainly comprise (i) commissions and fees paid primarily for business development and customer service; (ii) salaries and other benefits (including staff welfare and bonus) for Mr. Tan and Mr. Shek who are responsible for, among others, the sales activities of our Group and our design staff; (iii) freight and insurance costs charged for the delivery of footwear to customers; and (iv) travelling and entertainment expenses incurred by our staff mentioned above.

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### Administrative expenses

The following table sets forth a breakdown of our administrative expenses during the years indicated:

|                            | For the year ended |              |               |              |               |              |
|----------------------------|--------------------|--------------|---------------|--------------|---------------|--------------|
|                            | 2013               |              | 31 December   |              | 2015          |              |
|                            | HK\$'000           | %            | HK\$'000      | %            | HK\$'000      | %            |
| Staff costs                | 7,335              | 57.4         | 8,336         | 55.5         | 9,246         | 54.6         |
| Rent and rates             | 806                | 6.3          | 1,235         | 8.2          | 1,390         | 8.2          |
| Bank charges               | 862                | 6.7          | 911           | 6.1          | 958           | 5.7          |
| Depreciation               | 668                | 5.3          | 870           | 5.8          | 896           | 5.3          |
| Auditor's remuneration     | 199                | 1.5          | 584           | 3.9          | 224           | 1.3          |
| Legal and consultancy fees | 906                | 7.1          | 936           | 6.2          | 1,408         | 8.3          |
| Motor vehicle expenses     | 341                | 2.7          | 396           | 2.7          | 253           | 1.5          |
| Others                     | 1,654              | 13.0         | 1,747         | 11.6         | 2,545         | 15.1         |
| <b>Total</b>               | <b>12,771</b>      | <b>100.0</b> | <b>15,015</b> | <b>100.0</b> | <b>16,920</b> | <b>100.0</b> |

Staff costs mainly represent salaries and other benefits (including welfare and bonus) for our Directors as well as our staff responsible for business development, facilities sourcing, finance, administrative and human resources functions of our Group.

Rent and rates represent rental and government rates for our Group's offices.

Bank charges mainly represent handling charges for utilisation of banking facilities.

Depreciation represents the depreciation charges on our Group's leasehold land and building, leasehold improvement, motor vehicles, furniture and office equipment.

Legal and consultancy fees mainly represent fees for general legal advisory service, consultancy service on business development and provision of accounting and secretarial services.

Motor vehicle expenses mainly represent costs on repairs and maintenance for our Group's motor vehicles.

Others mainly represent general insurance, utilities, postage and office supplies.

### [REDACTED] expenses

[REDACTED] expenses mainly comprise professional fees to reporting accountants, industry expert, legal and other professional parties for their services rendered in connection with the [REDACTED]. For the three years ended 31 December 2015, we incurred [REDACTED] expenses of [REDACTED], approximately HK\$[REDACTED] and

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HK\$[REDACTED], respectively. We commenced our preparation work for the [REDACTED] in September 2014 with the engagement of reporting accountants and legal counsels, followed by the appointment of other professional parties.

### Finance costs

Finance costs mainly represent interest expenses incurred for utilisation of banking facilities.

During the Track Record Period and up to the Latest Practicable Date, three of our customers and our Group joined a supply chain finance program operated by an Independent Third Party, under which these customers will upload invoices of our footwear to a website for us to select those invoices which we wish to transfer payment obligations thereunder to financial institutions. We shall bear a fee charged by the financial institutions which accept the transfer of the payment obligations. For the three years ended 31 December 2015, we have transferred invoices for a total payment obligation of our customers of nil, nil and approximately USD4.1 million (equivalent to approximately HK\$32.0 million), respectively, and paid total fees of nil, nil and approximately USD11,000 (equivalent to approximately HK\$86,000), respectively, pursuant to this supply chain finance program.

### Income tax expense

Our income tax expense comprises both Hong Kong profits tax and the PRC enterprise income tax. Hong Kong profits tax has been provided for at the rate of 16.5% for the three years ended 31 December 2015 on the estimated assessable profits arising in or derived from Hong Kong. Our subsidiary in the PRC was subject to PRC enterprise income tax at the preferential tax rate of 20% as it was qualified as a small meager-profit enterprise pursuant to the PRC EIT Law and the notice on Relevant Issues Concerning the Preferential Policies of Enterprise Income Tax applicable to Small Meager-Profit Enterprises jointly issued by the PRC Ministry of Finance and State Administration of Taxation on 8 April 2014 for the year ended 31 December 2014 and at the statutory rate of 25% for the year ended 31 December 2013 and the year ended 31 December 2015.

Pursuant to the rules and regulations of the Cayman Islands and British Virgin Islands, our Group is not subject to any income tax in Cayman Islands and British Virgin Islands.

Our income tax expenses for the three years ended 31 December 2015 were approximately HK\$2.8 million, HK\$3.0 million and HK\$2.9 million respectively.

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### Net profit margin and normalised net profit margin

Our Group recorded a net profit margin of approximately 3.3%, 3.4% and 2.1% for the three years ended 31 December 2015, respectively. Decline in our net profit margin from approximately 3.4% for the year ended 31 December 2014 to approximately 2.1% for the year ended 31 December 2015 was primarily attributable to the incurrence of [REDACTED] expenses of approximately HK\$[REDACTED] during the year ended 31 December 2015. The table below sets forth our profit and normalised profit, which is adjusted for the non-recurring [REDACTED] expenses, for the years indicated:

|                                | For the year ended<br>31 December |                   |                   |
|--------------------------------|-----------------------------------|-------------------|-------------------|
|                                | 2013                              | 2014              | 2015              |
|                                | HK\$'000                          | HK\$'000          | HK\$'000          |
| Profit for the year            | 10,161                            | 8,404             | 6,436             |
| Add: [REDACTED] expenses       | <u>[REDACTED]</u>                 | <u>[REDACTED]</u> | <u>[REDACTED]</u> |
| Normalised profit for the year | <u>10,161</u>                     | <u>10,760</u>     | <u>13,721</u>     |
| Net profit margin              | 3.3%                              | 3.4%              | 2.1%              |
| Normalised net profit margin   | 3.3%                              | 4.4%              | 4.5%              |

After being adjusted for the non-recurring [REDACTED] expenses, our Group recorded an increase in normalised net profit margin to approximately 4.4% for the year ended 31 December 2014 from approximately 3.3% for the year ended 31 December 2013. The increase was primarily due to our effective cost control measures mainly resulting in (i) an improvement of our gross profit margin from approximately 11.6% for the year ended 31 December 2013 to approximately 12.5% for the year ended 31 December 2014 (please refer to paragraph headed “Discussion of selected components of our results of operations – Review of historical operating results – Year ended 31 December 2014 compared with year ended 31 December 2013” in this section for further details); and (ii) decrease in selling and distribution expenses by approximately 48.2% as compared to those for the year ended 31 December 2013. To effectively control costs and expenses, we have undertaken certain cost control measures since January 2014 which include among other things, (i) establishing authority limits for approval of expenses; and (ii) convening monthly meetings to compare our financial performance with the monthly budget prepared by our finance team and conducting investigation for any irregularities.

During the year ended 31 December 2015, we continued to undertake the said cost control measures and our gross profit margin further increased from approximately 12.5% for the year ended 31 December 2014 to approximately 13.6% for the year ended 31 December 2015 (please refer to paragraph headed “Discussion of selected components of our results of operations – Review of historical operating results – Year ended 31 December 2015 compared with year ended 31 December 2014” in this section for further details). As illustrated in the table above, our normalised net profit margin of approximately 4.5% for



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the year ended 31 December 2015 was maintained at a similar level as that for the year ended 31 December 2014. Our Directors estimate that, as a result of our implementation of the cost control measures since January 2014 as mentioned above, we were able to achieve saving in costs and expenses of approximately HK\$3.4 million during the period from January 2014 and up to the Latest Practicable Date.

Going forward, in order to enhance our net profit margin, our Group will (i) continue to undertake cost control measures; (ii) endeavor to achieve our business objectives of maintaining our growth in the footwear design and development, production management and logistics management service industry as well as enhancing our overall competitiveness and market share by implementing the business strategies as described in the section headed “Business – Our business objectives and strategies” in this [REDACTED]; and (iii) closely monitor the costs associated with the implementation plan to be carried out by us based on our Group’s business strategies as referred to in the section headed “Future plans and use of proceeds – Implementation plan” in this [REDACTED].

### **Review of historical operating results**

#### ***Year ended 31 December 2015 compared with year ended 31 December 2014***

##### *Revenue*

Our revenue increased by approximately 24.2% from approximately HK\$243.7 million for the year ended 31 December 2014 to approximately HK\$302.7 million for the year ended 31 December 2015. The increase was mainly due to the increase in our sales of formal footwear for men and children, partially offset by a slight decrease in sales for casual footwear for children resulting primarily from the product mix of orders from our customers during the year.

##### *Cost of sales*

Our cost of sales increased from approximately HK\$213.3 million for the year ended 31 December 2014 to approximately HK\$261.5 million for the year ended 31 December 2015. The increase of approximately HK\$48.2 million or approximately 22.6% was principally attributable to increase in purchase costs from our footwear suppliers of approximately HK\$47.4 million as a result of the increase in our sales for the year. In August 2015, the People’s Bank of China devalued Renminbi which is seen as an attempt to boost the competitiveness of the PRC’s exports. While almost all of our sales are denominated in US dollars, the depreciation of Renminbi against other currencies, in particular US dollars, has benefited our Group as we have negotiated with some of our PRC footwear suppliers which agreed to reduce the price of some of the footwear they supplied to us. The purchase cost to sales ratio decreased from approximately 84.2% for the year ended 31 December 2014 to approximately 83.5% for the year ended 31 December 2015.

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### *Gross profit and gross profit margin*

As a result of the foregoing, our gross profit increased by approximately HK\$10.7 million or approximately 35.2% from approximately HK\$30.5 million for the year ended 31 December 2014 to approximately HK\$41.2 million for the year ended 31 December 2015, and our gross profit margin increased from approximately 12.5% for the year ended 31 December 2014 to approximately 13.6% for the year ended 31 December 2015.

### *Other income*

Our other income decreased from approximately HK\$5.6 million for the year ended 31 December 2014 to approximately HK\$2.7 million for the year ended 31 December 2015 mainly due to the receipt of an one-off compensation payment of approximately HK\$2.7 million during the year ended 31 December 2014 for the cancellation of purchase orders from a Russian customer.

### *Other expenses*

Our other expenses decreased from approximately HK\$3.2 million for the year ended 31 December 2014 to approximately HK\$1.8 million for the year ended 31 December 2015 primarily due to the decrease in claims paid of approximately HK\$1.1 million. During the year ended 31 December 2014, claims in the aggregate amount of approximately HK\$1.7 million were paid to our footwear suppliers as an one-off compensation payment for the cancellation of manufacturing orders relating to the cancellation of corresponding purchase orders from a Russian customer.

### *Other gains and losses*

We recorded other losses of approximately HK\$35,000 for the year ended 31 December 2015 primarily attributable to loss on disposal of property, plant and equipment of approximately HK\$444,000, partially offset by the change in fair value of investment properties of approximately HK\$400,000 revalued upon disposal of such investment properties in May 2015. During the year ended 31 December 2014, we recorded other gains of approximately HK\$324,000 mainly resulting from change in fair value of investment properties of approximately HK\$400,000 when such investment properties were revalued as at 31 December 2014, partially offset by net foreign exchange losses of approximately HK\$173,000.

### *Selling and distribution expenses*

Our selling and distribution expenses increased by approximately HK\$3.7 million from approximately HK\$3.8 million for the year ended 31 December 2014 to approximately HK\$7.5 million for the year ended 31 December 2015 which was mainly attributable to (i) increase in staff costs of approximately HK\$1.2 million relating to the appointment of Mr. Tan, who is primarily responsible for, among others, the sales activities of our Group, in October 2014; (ii) increase in freight and insurance charges by approximately HK\$1.2

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million in respect of sales under CIF terms during the year ended 31 December 2015; and (iii) increase in entertainment expenses of approximately HK\$1.2 million for maintaining business relationship with our customers.

### *Administrative expenses*

Our administrative expenses increased by approximately HK\$1.9 million from approximately HK\$15.0 million for the year ended 31 December 2014 to approximately HK\$16.9 million for the year ended 31 December 2015, which was principally due to (i) increased staff costs of approximately HK\$0.9 million relating to newly recruited staff in our finance department during the year ended 31 December 2015; and (ii) increase in consultancy fees of approximately HK\$0.5 million for accounting and secretarial services.

### *[REDACTED] expenses*

Our [REDACTED] expenses increased from approximately HK\$[REDACTED] million for the year ended 31 December 2014 to approximately HK\$[REDACTED] million for the year ended 31 December 2015 as we only commenced preparation work for the [REDACTED] since September 2014.

### *Finance costs*

Our finance costs increased by approximately HK\$0.5 million from approximately HK\$0.7 million for the year ended 31 December 2014 to approximately HK\$1.2 million for the year ended 31 December 2015, primarily attributable to the increase in trust receipt loans utilised for trade finance purposes. The increase in finance costs was in line with the increase in our purchases from footwear suppliers for the year ended 31 December 2015 as compared to the previous year.

### *Income tax expense*

Income tax expense of approximately HK\$3.0 million and HK\$2.9 million was recognised for the two years ended 31 December 2015 respectively. Our effective tax rate increased from approximately 26.0% for the year ended 31 December 2014 to approximately 30.7% for the year ended 31 December 2015 mainly related to the increase in [REDACTED] expenses incurred during the year ended 31 December 2015, which were non-deductible for tax purposes.

### *Profit attributable to owner of our Company*

As a result of the foregoing, our profit attributable to owner of our Company decreased by approximately HK\$2.0 million or approximately 23.4% from approximately HK\$8.4 million for the year ended 31 December 2014 to approximately HK\$6.4 million for the year ended 31 December 2015.

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### *Year ended 31 December 2014 compared with year ended 31 December 2013*

#### *Revenue*

Our revenue decreased by approximately HK\$59.7 million, or approximately 19.7%, from approximately HK\$303.4 million for the year ended 31 December 2013 to approximately HK\$243.7 million for the year ended 31 December 2014. The decrease was primarily due to a decrease in sales to a Russian customer of approximately HK\$93.7 million due to our decision to cease our business relationship with such Russian customer in early 2014, after considering its increasing credit risk resulting from the abrupt devaluation of Ruble and economic instability in Russia, partially offset by an increase of approximately HK\$41.7 million, or approximately 32.5%, in revenue from sales of our footwear to customers with shipment destinations in Australia, United Kingdom, New Zealand, United Arab Emirates and the US, being developed countries in which we strategically focused on expanding our sales to international branded customers and diversifying our customer base.

#### *Cost of sales*

Our cost of sales decreased from approximately HK\$268.3 million for the year ended 31 December 2013 to approximately HK\$213.3 million for the year ended 31 December 2014. The decrease of approximately HK\$55.0 million or approximately 20.5% was principally due to (i) decrease in purchase costs from our footwear suppliers of approximately HK\$48.0 million which was in line with the decrease in our revenue for the year; (ii) decrease in staff costs of approximately HK\$2.4 million mainly due to dismissal of our staff engaged in sample making as we intended to outsource such process to Independent Third Parties; and (iii) decrease in other costs of approximately HK\$4.6 million primarily attributable to a reduction in (a) sample and molding fees as part of such costs were borne by certain footwear suppliers in view of our established business relationship; and (b) other overhead as a result of our cost control measures.

#### *Gross profit and gross profit margin*

As a result of the foregoing, our gross profit decreased by approximately HK\$4.6 million or approximately 13.2% from approximately HK\$35.1 million for the year ended 31 December 2013 to approximately HK\$30.5 million for the year ended 31 December 2014. Nevertheless, our gross profit margin increased from approximately 11.6% for the year ended 31 December 2013 to approximately 12.5% for the year ended 31 December 2014 mainly attributable to a decrease in staff costs and other costs of approximately HK\$7.1 million as described above.

#### *Other income*

Our other income increased by approximately HK\$3.4 million for the year ended 31 December 2014 as compared with the previous year which was mainly due to an one-off compensation payment of approximately HK\$2.7 million received from a Russian customer for the cancellation of purchase orders and increase in sales of accessories of approximately HK\$0.3 million.

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## FINANCIAL INFORMATION

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### *Other expenses*

Our other expenses increased by approximately HK\$0.9 million for the year ended 31 December 2014 as compared to the previous year principally due to the increase in claims paid to our footwear suppliers of approximately HK\$1.7 million as an one-off compensation payment for the cancellation of manufacturing orders relating to the cancellation of corresponding purchase orders from a Russian customer, partially offset by a decrease in claims paid to our customers of approximately HK\$1.0 million mainly relating to product defects and incorrect packaging reworks.

### *Other gains and losses*

We recorded other gains of approximately HK\$0.3 million for the year ended 31 December 2014 mainly resulting from change in fair value of investment properties of approximately HK\$0.4 million when such investment properties were revalued as at 31 December 2014, partially offset by net foreign exchange losses of approximately HK\$0.2 million. For the year ended 31 December 2013, we incurred other losses of approximately HK\$1.7 million primarily attributable to write off of an amount due from a former director of a subsidiary of approximately HK\$0.4 million and an amount due from a company owned by such individual of approximately HK\$1.3 million as at 31 December 2013, after considering his past contribution to our Group and assessing the recoverability of such amounts.

### *Selling and distribution expenses*

Our selling and distribution expenses decreased by approximately HK\$3.5 million or approximately 48.2% for the year ended 31 December 2014 as compared to the previous year mainly resulting from (i) a decrease in commissions paid for business development of approximately HK\$1.9 million; and (ii) decrease in entertainment and travelling expenses of approximately HK\$2.1 million as a result of our cost control measures.

### *Administrative expenses*

Our administrative expenses increased by approximately HK\$2.2 million or approximately 17.6% for the year ended 31 December 2014 as compared with the previous year principally due to (i) increase in staff costs of approximately HK\$1.0 million resulting mainly from the increase in director's emolument and increase in staff costs for our newly recruited administrative personnel in support of our business growth; (ii) increase in rent and rates of approximately HK\$0.4 million due to the relocation of our office in March 2014; and (iii) increase in auditor's remuneration of approximately HK\$0.4 million.

### *[REDACTED] expenses*

Our Group recorded [REDACTED] expenses of approximately HK\$[REDACTED] million for the year ended 31 December 2014 as we commenced our preparation work for the [REDACTED] in September 2014. No such [REDACTED] expenses were incurred for the year ended 31 December 2013.

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### *Finance costs*

Our finance expenses increased by approximately HK\$0.4 million for the year ended 31 December 2014 as compared with the previous year primarily resulting from the increase in trust receipt loans utilised for trade finance purposes, which was in line with the increase in sales to our customers who were not required to make prepayments as compared to those in 2013.

### *Income tax expense*

Income tax expense increased by approximately HK\$0.2 million for the year ended 31 December 2014 as compared to the previous year. Our effective tax rate increased from approximately 21.5% for the year ended 31 December 2013 to approximately 26.0% for the year ended 31 December 2014 mainly due to the increase in [REDACTED] expenses which were non-deductible for tax purposes.

### *Profit attributable to owner of our Company*

As a result of the foregoing, our profit attributable to the owner of our Company recorded a decrease of approximately HK\$2.1 million or approximately 20.3% from approximately HK\$10.5 million for the year ended 31 December 2013 to approximately HK\$8.4 million for the year ended 31 December 2014.

## NET CURRENT ASSETS

The following table sets forth the net current assets of our Group for the dates indicated:

|   | As at 31 December |               |               | As at         |
|---|-------------------|---------------|---------------|---------------|
|   | 2013              | 2014          | 2015          | 31 March      |
|   | HK\$'000          | HK\$'000      | HK\$'000      | 2016          |
|   |                   |               |               | HK\$'000      |
|   |                   |               |               | (Unaudited)   |
| <b>Current assets</b>                       |                   |               |               |               |
| Trade and bills receivables                 | 25,700            | 35,653        | 55,807        | 23,060        |
| Other receivables, prepayments and deposits | 11,846            | 6,976         | 2,288         | 2,309         |
| Amounts due from related parties            | 11,413            | –             | –             | –             |
| Amount due from a director                  | 16,264            | 17,141        | 21,266        | 21,386        |
| Tax recoverable                             | –                 | 195           | –             | –             |
| Pledged bank deposits                       | 1,005             | 1,129         | 2,134         | 2,135         |
| Bank balances and cash                      | 4,221             | 6,809         | 5,510         | 4,224         |
|   | <u>70,449</u>     | <u>67,903</u> | <u>87,005</u> | <u>53,114</u> |

## FINANCIAL INFORMATION

|  | As at 31 December |               |               | As at<br>31 March |
|--|-------------------|---------------|---------------|-------------------|
|  | 2013              | 2014          | 2015          | 2016              |
|  | HK\$'000          | HK\$'000      | HK\$'000      | HK\$'000          |
|  |                   |               |               | (Unaudited)       |
| <b>Current liabilities</b>               |                   |               |               |                   |
| Trade and other payables                 | 34,713            | 35,263        | 45,576        | 18,634            |
| Amount due to a related party            | 910               | –             | –             | –                 |
| Amounts due to directors                 | –                 | –             | 109           | 133               |
| Tax payable                              | 1,895             | 389           | 370           | 852               |
| Bank borrowings – due within<br>one year | 13,178            | 26,588        | 27,750        | 20,654            |
| Bank overdrafts                          | –                 | 3,943         | –             | –                 |
|  | <u>50,696</u>     | <u>66,183</u> | <u>73,805</u> | <u>40,273</u>     |
| <b>Net current assets</b>                | <u>19,753</u>     | <u>1,720</u>  | <u>13,200</u> | <u>12,841</u>     |

Our net current assets decreased from approximately HK\$19.8 million as at 31 December 2013 to approximately HK\$1.7 million as at 31 December 2014 primarily due to:

- (i) a decrease in other receivables, prepayments and deposits of approximately HK\$4.9 million mainly resulting from the refund of value-added tax of approximately HK\$4.1 million;
- (ii) settlement of amounts due from related parties of approximately HK\$11.4 million; and
- (iii) an increase in current bank borrowings of approximately HK\$13.4 million due to increase in utilisation of trust receipt loans for trade finance purposes,

offset by an increase in trade and bills receivables of approximately HK\$10.0 million which was primarily related to increase in our sales in 2014 to customers who were generally granted longer credit periods as compared to those in 2013.

The increase in net current assets to approximately HK\$13.2 million as at 31 December 2015 from net current assets of approximately HK\$1.7 million as at 31 December 2014 was primarily attributable to:

- (i) an increase in trade and bills receivables of approximately HK\$20.2 million mainly resulting from a higher level of sales in November and December 2015 as compared to that in November and December 2014; and
- (ii) repayment of bank overdrafts of approximately HK\$3.9 million,

notwithstanding an increase of approximately HK\$10.3 million in trade and other payables principally due to increase in purchases from our footwear suppliers relating to increase in our sales in November and December 2015.



## FINANCIAL INFORMATION

As at 31 March 2016, our Group recorded net current assets of approximately HK\$12.8 million, representing a decrease of approximately HK\$0.4 million as compared to the balance as at 31 December 2015 mainly due to (i) a decrease in trade and bills receivables of approximately HK\$32.7 million principally attributable to decrease in sales in February and March 2016 as compared to those in November and December 2015 and the settlement of trade and bills receivables by our customers during the three months ended 31 March 2016; (ii) a decrease in bank balances and cash of approximately HK\$1.3 million; and (iii) an increase in tax payable of approximately HK\$0.5 million principally resulting from the tax provision being made for the three months ended 31 March 2016, notwithstanding (i) a decrease in trade and other payables of approximately HK\$26.9 million mainly due to a lower level of purchases from our footwear suppliers in February and March 2016 as compared to that in November and December 2015 and the settlement of trade payables to our suppliers during the three months ended 31 March 2016; and (ii) a decrease in current bank borrowing of approximately HK\$7.1 million mainly due to de-recognition of bank borrowings upon settlement received by the bank of our trade and bills receivables previously sold by us to the bank.

### DISCUSSION OF SELECTED COMPONENTS OF OUR FINANCIAL POSITION DURING THE TRACK RECORD PERIOD

#### Trade and bills receivables

Trade and bills receivables primarily represent the balances due from our customers for the sales of footwear.

The following table sets out the aging analysis of our trade and bills receivables presented based on the relevant invoice date as at the dates indicated:

|               | 2013          |              | As at 31 December 2014 |              | 2015          |              |
|---------------|---------------|--------------|------------------------|--------------|---------------|--------------|
|               | HK\$'000      | %            | HK\$'000               | %            | HK\$'000      | %            |
| 0 to 30 days  | 20,692        | 80.5         | 20,042                 | 56.2         | 29,014        | 52.0         |
| 31 to 60 days | 4,479         | 17.5         | 13,103                 | 36.8         | 23,661        | 42.4         |
| 61 to 90 days | 267           | 1.0          | 2,508                  | 7.0          | 2,624         | 4.7          |
| Over 90 days  | 262           | 1.0          | —                      | —            | 508           | 0.9          |
| <b>Total</b>  | <b>25,700</b> | <b>100.0</b> | <b>35,653</b>          | <b>100.0</b> | <b>55,807</b> | <b>100.0</b> |

Our trade and bills receivables increased from approximately HK\$25.7 million as at 31 December 2013 to approximately HK\$35.7 million as at 31 December 2014 which was primarily related to increase in our sales to customers which were generally granted longer credit periods as compared to those in the preceding year.

The increase in our trade and bills receivables by approximately HK\$20.2 million as at 31 December 2015 was mainly due to a higher level of sales in November and December 2015 as compared to that in November and December 2014.

## FINANCIAL INFORMATION

The following table sets forth our trade and bills receivables turnover days for the years indicated:

|   | <b>For the year ended<br/>31 December</b> |             |             |
|---|---|-------------|-------------|
|   | <b>2013</b>                               | <b>2014</b> | <b>2015</b> |
| Trade and bills receivables turnover days | 29.9                                      | 45.9        | 55.1        |

*Note: Calculated using the average of the beginning and ending trade and bills receivables balance for each of the three years ended 31 December 2015 divided by revenue for the corresponding year and multiplied by 365 days.*

We generally grant a credit period ranging from 7 days to 90 days to our customers. Before accepting any new customer, we assess the potential customer's credit quality and defines credit limits by customer. Credit limits attributed to customers and credit term granted to customers are reviewed regularly. Our trade receivables turnover days increased from 29.9 days for the year ended 31 December 2013 to 45.9 days and 55.1 days for the two years ended 31 December 2015 respectively mainly due to the increase in our sales in 2014 and 2015 to customers which were generally granted longer credit periods as compared to those in 2013.

Our trade and bills receivables that are neither past due nor impaired have no history of defaulting on repayments. As at the Latest Practicable Date, approximately 99.5% of our trade and bills receivables outstanding as at 31 December 2015 were settled.

The table following shows an aging analysis of trade and bills receivables which are past due but not impaired at the dates indicated:

|               | <b>As at 31 December</b> |                 |                 |
|---------------|--------------------------|-----------------|-----------------|
|               | <b>2013</b>              | <b>2014</b>     | <b>2015</b>     |
|               | <i>HK\$'000</i>          | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Overdue by:   |                          |                 |                 |
| 1 to 30 days  | 7,543                    | 1,358           | 2,624           |
| 31 to 60 days | 417                      | 1,864           | 219             |
| Over 60 days  | —                        | —               | 287             |
|               | <u>7,960</u>             | <u>3,222</u>    | <u>3,130</u>    |

We do not hold any collateral over these balances.

There was no impairment on trade and bills receivables during the Track Record Period. Our management will review regularly the recoverability of our trade and bills receivables.

## FINANCIAL INFORMATION

### Other receivables, prepayment and deposits

The following table sets forth a breakdown of our other receivables, prepayment and deposits as of the dates indicated:

|                                       | 2013          |              | As at 31 December 2014 |              | 2015         |              |
|---------------------------------------|---------------|--------------|------------------------|--------------|--------------|--------------|
|                                       | HK\$'000      | %            | HK\$'000               | %            | HK\$'000     | %            |
| Value-added tax recoverable           | 4,236         | 35.8         | 176                    | 2.5          | –            | –            |
| Prepayments                           | 1,501         | 12.7         | 453                    | 6.5          | 2,201        | 96.2         |
| Advance to a director of a subsidiary | 5,838         | 49.3         | 5,830                  | 83.6         | –            | –            |
| Others                                | 271           | 2.2          | 517                    | 7.4          | 87           | 3.8          |
|                                       | <u>11,846</u> | <u>100.0</u> | <u>6,976</u>           | <u>100.0</u> | <u>2,288</u> | <u>100.0</u> |

Value-added tax recoverable as at 31 December 2013 and 2014 represented the refundable export value-added tax paid by Tin Da for the two years ended 31 December 2013 in relation to export sales made by Tin Da as requested by one of our customers in 2012 and 2013. The balance was fully settled during the year ended 31 December 2015.

Prepayments mainly represented the advance payments to (i) our footwear suppliers which needed funds for purchasing raw materials; and (ii) when required, some new footwear suppliers, with prior approval of our chief executive officer. As at 31 December 2013, 2014 and 2015, prepayments amounted to approximately HK\$1.5 million, HK\$0.5 million and HK\$2.2 million, respectively.

Advance to a director of a subsidiary was interest fee, unsecured and repayable on demand. The amount was fully settled during the year ended 31 December 2015.

Others mainly represented the deposits for utilities.

### Amounts due from related parties

Amounts due from related parties as at 31 December 2013 comprised (i) approximately HK\$9.7 million due from Mr. KC Ho and a company wholly owned by him; and (ii) approximately HK\$1.7 million due from companies owned by Mr. KW Ho. The amounts, which were of non-trade in nature, unsecured and interest-free, were fully settled during the year ended 31 December 2014.

### Amount due from a director

The amount due from a director mainly represented the advances made to Mr. KW Ho which was non-trade in nature. The amount is unsecured, non-interest bearing and will be settled by cash in full by Mr. KW Ho before the [REDACTED]. Our Group will utilise the amount we will receive for our general working capital.

## FINANCIAL INFORMATION

### Trade and other payables

The following table sets forth a breakdown of our trade and other payables as of the dates indicated:

|  | 2013          |              | As at 31 December 2014 |              | 2015          |              |
|--|---------------|--------------|------------------------|--------------|---------------|--------------|
|  | HK\$'000      | %            | HK\$'000               | %            | HK\$'000      | %            |
| Trade payables                           | 19,185        | 55.3         | 21,394                 | 60.7         | 39,446        | 86.5         |
| Receipt in advance from customers        | 6,463         | 18.6         | 2,329                  | 6.6          | 313           | 0.7          |
| Accrued staff salaries                   | 2,477         | 7.1          | 4,094                  | 11.6         | 4,030         | 8.8          |
| Accrued expenses                         | 401           | 1.2          | 720                    | 2.0          | 847           | 1.9          |
| Other tax payables                       | 109           | 0.3          | 153                    | 0.5          | 66            | 0.1          |
| Amount due to a director of a subsidiary | 5,838         | 16.8         | 5,830                  | 16.5         | —             | —            |
| Others                                   | 240           | 0.7          | 743                    | 2.1          | 874           | 2.0          |
| <b>Total</b>                             | <b>34,713</b> | <b>100.0</b> | <b>35,263</b>          | <b>100.0</b> | <b>45,576</b> | <b>100.0</b> |

### Trade payables

Our trade payables primarily consisted of the balances due to our footwear suppliers.

The following table illustrates the aging analysis of our trade payables presented based on invoice date as at the dates indicated:

|               | 2013          |              | As at 31 December 2014 |              | 2015          |              |
|---------------|---------------|--------------|------------------------|--------------|---------------|--------------|
|               | HK\$'000      | %            | HK\$'000               | %            | HK\$'000      | %            |
| 0 to 30 days  | 15,712        | 81.9         | 15,400                 | 72.0         | 25,368        | 64.3         |
| 31 to 60 days | 2,736         | 14.3         | 5,712                  | 26.7         | 11,130        | 28.2         |
| 61 to 90 days | 151           | 0.8          | 81                     | 0.4          | 2,868         | 7.3          |
| Over 90 days  | 586           | 3.0          | 201                    | 0.9          | 80            | 0.2          |
| <b>Total</b>  | <b>19,185</b> | <b>100.0</b> | <b>21,394</b>          | <b>100.0</b> | <b>39,446</b> | <b>100.0</b> |

Our trade payables balance increased slightly from approximately HK\$19.2 million as at 31 December 2013 to approximately HK\$21.4 million as at 31 December 2014 mainly due to the extended credit period granted by one of our major footwear suppliers after considering our long term business relationship. The increase in our trade payables of approximately HK\$18.1 million in the year ended 31 December 2015 as compared to the year ended 31 December 2014 was primarily attributable to the increased purchases from our

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footwear suppliers corresponding to a higher level of sales in November and December 2015 as compared to those in November and December 2014. As at the Latest Practicable Date, approximately 99.1% of our trade payables outstanding as at 31 December 2015 were settled.

The following table sets forth our trade payables turnover days for the years indicated:

|                              | <b>For the year ended<br/>31 December</b> |             |             |
|------------------------------|---|-------------|-------------|
|                              | <b>2013</b>                               | <b>2014</b> | <b>2015</b> |
| Trade payables turnover days | 34.9                                      | 34.7        | 42.5        |

*Note:* Calculated based on the average of the beginning and ending trade payables balance for each of the three years ended 31 December 2015 divided by the cost of sales incurred for the corresponding year and multiplied by 365 days.

During the Track Record Period, we were generally granted a credit period ranging from 20 days to 45 days by our footwear suppliers. Our trade payables turnover days remained stable at 34.9 days and 34.7 days, respectively, for the two years ended 31 December 2014, and increased to 42.5 days for the year ended 31 December 2015 primarily due to increased purchases from our footwear suppliers in November and December 2015 (corresponding to increase in sales during these two months) that increased our trade payables balance as at 31 December 2015.

### ***Other payables***

Receipt in advance from customers primarily represented the prepayments received from our customers. During the Track Record Period, apart from certain customers who agreed with us to make prepayment in respect of their purchases, a Russian customer was required by us to make a prepayment of 30% of sales amount before shipment in view of its increasing credit risk. Receipt in advance from customers decreased from approximately HK\$6.5 million as at 31 December 2013 to approximately HK\$2.3 million as at 31 December 2014 principally due to the cessation of business relationship with such Russian customer in early 2014. As at 31 December 2015, the prepayments received from our customers reached approximately HK\$0.3 million.

Accrued staff salaries are primarily related to accrued salaries, provision for staff bonus as well as amounts accrued for social insurance fund and housing provident fund contributions required in the PRC. Further information about the social insurance fund and housing provident fund contributions are set out in the section headed “Business – Legal compliance and proceedings” in this [REDACTED]. The increase of accrued staff salaries to approximately HK\$4.1 million as at 31 December 2014 from approximately HK\$2.5 million as at 31 December 2013 was mainly attributable to an increase of (i) approximately HK\$0.7 million in accrued salaries (including those for our staff hired during the year) and provision for staff bonus in view of their contribution to our Group; and (ii) approximately HK\$0.9 million in provision for social insurance fund and housing provident fund contributions. The

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amount of accrued staff salaries remained stable at approximately HK\$4.0 million as at 31 December 2015.

Accrued expenses mainly comprised accruals for audit fees, [REDACTED] expenses and other operating expenses. Increase in accrued expenses during the Track Record Period was mainly due to the accrual of [REDACTED] expenses.

Other tax payables, which represented PRC educational surtax, urban construction and maintenance taxes and levies payable by Tin Da, amounted to approximately HK\$0.1 million, HK\$0.2 million and HK\$0.1 million, respectively, as at 31 December 2013, 2014, and 2015.

Amount due to a director of a subsidiary was settled in full during the year ended 31 December 2015.

### Amount due to a related party

The amount due to a related party of approximately HK\$0.9 million represented the amount due to Ever Sound, a company owned by Mr. KW Ho, as at 31 December 2013. The amount, which was of non-trade in nature, unsecured and interest-free, was fully settled during the year ended 31 December 2014.

### KEY FINANCIAL RATIOS

The following table sets out our key financial ratios during the Track Record Period:

|   | As at/For the year ended<br>31 December |       |       |
|---|---|-------|-------|
|   | 2013                                    | 2014  | 2015  |
| Current ratio <sup>1</sup> (times)      | 1.4                                     | 1.0   | 1.2   |
| Return on equity <sup>2</sup> (%)       | 40.7                                    | 92.0  | 40.8  |
| Return on total assets <sup>3</sup> (%) | 13.7                                    | 11.0  | 7.1   |
| Debt to equity ratio <sup>4</sup> (%)   | 30.7                                    | 258.4 | 130.5 |

#### Notes:

1. Current ratio is calculated by dividing current assets by current liabilities as at the end of respective year.
2. Return on equity is calculated by dividing profit attributable to owner of our Company for the year by equity attributable to owner of our Company at the end of the respective year.
3. Return on total assets is calculated by dividing profit attributable to owner of our Company for the year by total assets at the end of the respective year.
4. Debt to equity ratio is calculated by dividing the net debt, which is defined to include bank borrowings and bank overdrafts net of pledged bank deposit and bank balances and cash, by total equity at the end of respective year.

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### Current ratio

Our Group recorded current ratio of approximately 1.4 times, 1.0 times and 1.2 times as at 31 December 2013, 2014 and 2015, respectively. Please refer to “Discussion of selected components of our financial position during the Track Record Period – Net current assets” above in this section for further details of changes in our current assets and current liabilities during the Track Record Period.

### Return on equity

Our return on equity increased from approximately 40.7% in 2013 to approximately 92.0% in 2014 mainly due to the decrease in equity attributable to owner of our Company of approximately 64.7% primarily related to the distribution of a dividend of HK\$26.0 million during the year ended 31 December 2014.

Our return on equity decreased from approximately 92.0% for the year ended 31 December 2014 to approximately 40.8% for the year ended 31 December 2015 which was mainly attributable to a decrease in our profit attributable to owner of our Company principally as a result of the increase in [REDACTED] expenses incurred during the year ended 31 December 2015.

### Return on total assets

Our return on total assets slightly decreased from approximately 13.7% for the year ended 31 December 2013 to approximately 11.0% for the year ended 31 December 2014 primarily due to the [REDACTED] expenses incurred during the year ended 31 December 2014 as we commenced our preparation work for the [REDACTED] in September 2014.

Our return on total assets decreased from approximately 11.0% for the year ended 31 December 2014 to approximately 7.1% for the year ended 31 December 2015 mainly attributable to the increase in progress payment for [REDACTED] expenses during the year ended 31 December 2015.

### Debt to equity ratio

Our debt to equity ratio increased from approximately 30.7% as at 31 December 2013 to approximately 258.4% as at 31 December 2014 principally due to the decrease in our total equity as at 31 December 2014 primarily related to the payment of a dividend of HK\$26.0 million during the year ended 31 December 2014 as well as the increase in bank borrowings and bank overdrafts of approximately HK\$18.4 million as at 31 December 2014 mainly due to increased utilisation of trust receipt loans for trade finance purposes.

The decrease in our debt to equity ratio from approximately 258.4% as at 31 December 2014 to approximately 130.5% as at 31 December 2015 principally due to (i) the increase in our total equity as at 31 December 2015 as we recorded profit for the year of approximately HK\$6.4 million; and (ii) the decrease in bank overdrafts from approximately HK\$3.9 million as at 31 December 2014 to nil as at 31 December 2015.



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### SENSITIVITY ANALYSIS

Our cost of sales mainly comprised the purchase cost from our footwear suppliers. For the three years ended 31 December 2015, purchase cost from our footwear suppliers amounted to approximately HK\$253.2 million, HK\$205.2 million and HK\$252.6 million, respectively, representing approximately 94.4%, 96.2% and 96.6% of our cost of sales.

The following sensitivity analysis illustrates the impact of hypothetical changes, based on historical fluctuations during the Track Record Period, in our purchase cost from footwear suppliers for the periods indicated.

| % change in<br>purchase cost<br>from footwear<br>suppliers | For the year<br>ended 31 December   |   |   |   |   |   |
|--|---|---|---|---|---|---|
|  | 2013  |   | 2014  |   | 2015  |   |
|  | Corresponding<br>increase<br>(decrease)<br>in profit<br>before<br>taxation<br><i>HK\$'000</i> | % change<br>in profit<br>before<br>taxation<br><i>%</i> | Corresponding<br>increase<br>(decrease)<br>in profit<br>before<br>taxation<br><i>HK\$'000</i> | % change<br>in profit<br>before<br>taxation<br><i>%</i> | Corresponding<br>increase<br>(decrease)<br>in profit<br>before<br>taxation<br><i>HK\$'000</i> | % change<br>in profit<br>before<br>taxation<br><i>%</i> |
|  |   |   |   |   |   |   |
| 10%  | (25,324)  | (195.6%)  | (20,524)  | (180.8%)  | (25,264)  | (272.0%)  |
| 5%   | (12,662)  | (97.8%)   | (10,262)  | (90.4%)   | (12,632)  | (136.0%)  |
| (5%)   | 12,662  | 97.8%   | 10,262  | 90.4%   | 12,632  | 136.0%  |
| (10%)  | 25,324  | 195.6%  | 20,524  | 180.8%  | 25,264  | 272.0%  |

The sensitivity analysis above assumes that only one variable changes while other variables remain unchanged. This sensitivity analysis is intended for reference only, and any variation may differ from the amounts indicated. Investors should note in particular that this sensitivity analysis is not intended to be exhaustive and is limited to the impact of changes in our purchase cost from footwear suppliers and does not reflect changes in our turnover.

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### INDEBTEDNESS

The table below sets forth our outstanding bank borrowings as of the dates indicated.

|                         | As at 31 December |               |               | As at<br>31 March |
|-------------------------|-------------------|---------------|---------------|-------------------|
|                         | 2013              | 2014          | 2015          | 2016              |
|                         | HK\$'000          | HK\$'000      | HK\$'000      | HK\$'000          |
|                         |                   |               |               | (Unaudited)       |
| Secured bank borrowings |                   |               |               |                   |
| – Variable rate         | 11,093            | 11,397        | 20,077        | 13,459            |
| – Fixed rate            | <u>2,085</u>      | <u>16,204</u> | <u>8,134</u>  | <u>7,579</u>      |
| Total bank borrowings   | <u>13,178</u>     | <u>27,601</u> | <u>28,211</u> | <u>21,038</u>     |

Our bank borrowings represent trust receipt loans for trade finance purposes, prepayments obtained from a bank in Hong Kong for the sale of trade and bills receivables, tax loan and hire purchase loan, and are denominated in USD and HKD.

The following table sets out the effective interest rates of our variable rate bank borrowings as at the dates indicated:

| As at            |       |
|------------------|-------|
| 31 December 2013 | 2.25% |
| 31 December 2014 | 2.25% |
| 31 December 2015 | 2.54% |
| 31 March 2016    | 2.73% |

The fixed rate bank borrowings as at 31 December 2013, 2014 and 2015 and 31 March 2016 carried interests ranging from 2.5% to 5.5% per annum.

As at 31 December 2013, 31 December 2014, 31 December 2015 and 31 March 2016, we had bank overdrafts of nil, approximately HK\$3.9 million, nil and nil respectively. Our bank overdrafts were repayable on demand and carried fixed interest rate at 5.25% per annum.

As at 31 March 2016, we had amounts due to our Directors, namely Mr. KW Ho and Mr. KP Ho, of approximately HK\$133,000, which were unsecured, unguaranteed and of non-trade nature, and were settled in full as at the Latest Practicable Date.

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The following table sets out the maturity profiles of our bank borrowings as at the dates indicated:

|  | As at 31 December |               |               | As at<br>31 March<br>2016 |
|--|-------------------|---------------|---------------|---------------------------|
|  | 2013              | 2014          | 2015          |                           |
|  | HK\$'000          | HK\$'000      | HK\$'000      | HK\$'000<br>(unaudited)   |
| <b>Current</b>                                       |                   |               |               |                           |
| Within one year                                      | –                 | 320           | 308           | 308                       |
| On demand  | 13,178            | 26,268        | 27,442        | 20,346                    |
| <b>Non-current</b>                                   |                   |               |               |                           |
| More than one year, but not<br>exceeding two years   | –                 | 320           | 308           | 308                       |
| More than two years, but not<br>more than five years | –                 | 693           | 153           | 76                        |
|  | <u>13,178</u>     | <u>27,601</u> | <u>28,211</u> | <u>21,038</u>             |

As at 31 December 2013, 31 December 2014, 31 December 2015 and 31 March 2016, bank borrowings of approximately HK\$13.1 million, HK\$26.3 million, HK\$27.4 million and HK\$20.3 million contained a repayment on demand clause. These amounts were classified as current liabilities even though they were not scheduled to be repaid within one year.

As at 31 March 2016, being the latest practicable date for the indebtedness statement, we had (i) outstanding indebtedness of approximately HK\$21.0 million, comprising trust receipt loans of approximately HK\$18.8 million, tax loan of approximately HK\$1.5 million and hire purchase loan of approximately HK\$0.7 million; and (ii) unutilised banking facilities of approximately HK\$35.8 million. As at 31 March 2016, our bank borrowings were secured by (i) pledged bank deposits; (ii) a motor vehicle owned by our Group; (iii) personal guarantees given by Mr. KW Ho and Mr. KC Ho; (iv) legal charge over a property owned by Mr. KW Ho and Mr. KC Ho; and (v) corporate guarantee given by Ever Smart. As at the Latest Practicable Date, all of the three banks which had provided banking facilities to our Group had provided in-principle consents to release the personal guarantees given and legal charge over a property owned by Mr. KW Ho and Mr. KC Ho, and replace such personal guarantees and legal charge by corporate guarantee given by our Company and pledged bank deposits of our Group upon the [REDACTED].

Our Directors confirmed that there was neither material delay nor default in payment of our bank borrowings and bank overdrafts, and we had not experienced any breach of financial covenants during the Track Record Period.

In August 2015, we entered into an trade and bills receivables purchase agreement with a bank in Hong Kong, pursuant to which we are entitled to sell our trade and bills receivables of certain customers to the bank and obtain 90% prepayment of our invoices for these customers for an amount of not more than USD2 million and not more than USD3.5

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million from March to July of the same year and from August of one year to February of the following year, respectively, at a discounting charge at 2.5% per annum over one month London Interbank Offered Rate. We are also required to pay a service charge of 0.4% flat on the face value of each invoice. The remaining 10% of the trade and bills receivables will be paid to us by the bank after it has received the entire invoiced amount from the customer and deducted the aforesaid discounting charge and service charge therefrom. During November and December 2015 and up to the Latest Practicable Date, our Group had sold trade and bills receivables in the sum of approximately US\$4.9 million (equivalent to approximately HK\$38.2 million) to the bank, of which a sum of approximately US\$4.4 million (equivalent to approximately HK\$34.3 million) had been repaid by the relevant customer to the bank, leaving an outstanding balance of approximately US\$0.5 million (equivalent to approximately HK\$3.9 million), and we paid charges of approximately US\$27,000 (equivalent to approximately HK\$211,000) to the bank. This service is subject to review by the bank any time and, in any event, by 15 July 2016. Pursuant to the said trade and bills receivables purchase agreement, the trade and bills receivables sold to the bank are expressly to be on a without recourse basis. Notwithstanding that, the bank is entitled to take out or maintain insurance in relation to these trade and bills receivables purchased from our Group. In such event, if the trade and bills receivables have been sold to the bank, the bank shall recover the debt from the customer. In the event that the customer is in default, the bank can recover the same from the insurance company. If the bank's claim under any insurance policy and/or coverage is for any reason being delayed, disputed or rejected, the bank is entitled to demand us to indemnify the bank for the loss suffered by the bank. As such, the bank can make a claim against us only if it has maintained insurance related to the trade and bills receivables and it cannot recover the debt from the insurance company. Having considered the above, our Directors are of the view that the risk of our Group being claimed by the bank under the aforesaid trade and bills receivables purchase agreement is rather remote. Nevertheless, as our Group is obligated under the terms of the trade and bills receivables purchase agreement to make payments to the bank for credit losses and retain substantially the risks of ownership associated with the trade and bills receivables, we will retain the relevant trade and bills receivables and recognise the respective bank borrowings in our consolidated statement of financial position. The trade and bills receivables and the bank borrowings will be de-recognised upon settlement received from the bank after it has received the entire invoiced amount from our customers.

Save as disclosed above and apart from intra-group balances, as at 31 March 2016, we did not have any other borrowings, mortgages, charges, debentures, or debt securities, issued or outstanding, or authorised or otherwise created but unissued, or other similar indebtedness, finance lease commitment, liabilities under acceptance, acceptance credits, hire purchase commitments, contingent liabilities or guarantees. Our Directors confirm that, other than as disclosed in this [REDACTED], there had been no material change in our indebtedness since 31 March 2016 up to the Latest Practicable Date.

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### RELATED PARTY TRANSACTIONS

During the Track Record Period, we had certain related party transactions. Our Directors have confirmed that all related party transactions during the Track Record Period were conducted on an arm’s length basis and did not distort our results of operations for the Track Record Period or make our historical results not reflective of our future performance.

For more information on our related parties transactions, see notes 19 and 28 to our consolidated financial statements included in the Accountants’ Report set out in Appendix I to this [REDACTED].

### LIQUIDITY AND FINANCIAL RESOURCES

During the Track Record Period and up to the Latest Practicable Date, we have been generally financing our operations through cash generated from our operations and short-term bank borrowings (comprising primarily trust receipt loans).

#### *Cash flows*

The table below sets out a summary of our cash flows during the Track Record Period:

|   | <b>For the year ended<br/>31 December</b> |                     |                     |
|---|---|---------------------|---------------------|
|   | <b>2013</b>                               | <b>2014</b>         | <b>2015</b>         |
|   | <i>HK\$’000</i>                           | <i>HK\$’000</i>     | <i>HK\$’000</i>     |
| Operating cash flows before movements in working capital    | 15,064                                    | 12,422              | 11,386              |
| Net cash from (used in) operating activities                | 584                                       | 3,285               | (6,203)             |
| Net cash (used in) from investing activities                | (29,025)                                  | (13,888)            | 5,662               |
| Net cash from financing activities                          | <u>15,920</u>                             | <u>9,239</u>        | <u>2,989</u>        |
| <b>Net (decrease) increase in cash and cash equivalents</b> | (12,521)                                  | (1,364)             | 2,448               |
| Cash and cash equivalents at the beginning of the year      | 16,754                                    | 4,221               | 2,866               |
| Effect of foreign exchange rate changes                     | <u>(12)</u>                               | <u>9</u>            | <u>196</u>          |
| Cash and cash equivalents at the end of the year            | <u><b>4,221</b></u>                       | <u><b>2,866</b></u> | <u><b>5,510</b></u> |

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### *Net cash from (used in) operating activities*

Our operating cash flows before movements in working capital primarily reflect our profit before taxation, adjusted for the cash flow effects of certain income statement items, including depreciation of property, plant and equipment, gain/loss on disposal of property, plant and equipment, write off of amount due from a former director of a subsidiary and amount due from a company owned by a former director of a subsidiary, change in fair value of investment properties, finance costs and interest income.

Our net cash used in operating activities for the year ended 31 December 2015 was approximately HK\$6.2 million while our operating cash flows before movements in working capital was approximately HK\$11.4 million. The difference of approximately HK\$17.6 million was mainly due to (i) increase in trade and bills receivables of approximately HK\$29.4 million primarily due to a higher level of sales in November and December 2015 as compared to that in November and December 2014; (ii) increase in trade and other payables of approximately HK\$16.1 million mainly resulting from increased purchases from our footwear suppliers in November and December 2015 corresponding to increase in sales during these two months; and (iii) payment of income tax of approximately HK\$3.0 million.

Our net cash generated from operating activities for the year ended 31 December 2014 was approximately HK\$3.3 million, while our operating cash flows before movements in working capital was approximately HK\$12.4 million. The difference of approximately HK\$9.1 million was primarily attributable to (i) increase in trade and bills receivables of approximately HK\$10.0 million which was mainly related to increase in our sales in 2014 to customers who were generally granted longer credit periods as compared to those in 2013; (ii) decrease in other receivables, prepayments and deposits of approximately HK\$4.9 million due to the refund of value-added tax; and (iii) payment of income tax of approximately HK\$4.5 million.

Our net cash generated from operating activities for the year ended 31 December 2013 was approximately HK\$0.6 million, while our operating cash flows before movements in working capital was approximately HK\$15.1 million. The difference of approximately HK\$14.5 million was mainly due to (i) decrease in trade and other payables of approximately HK\$12.2 million primarily related to early settlement of our trade payables in December 2013 to certain footwear suppliers in view of our established business relationship; and (ii) payment of income tax of approximately HK\$2.7 million.

### *Net cash (used in) from investing activities*

Our net cash generated from investing activities for the year ended 31 December 2015 was approximately HK\$5.7 million, which was primarily attributable to (i) repayment from a director of a subsidiary of approximately HK\$5.8 million; (ii) proceeds from disposal of investment properties of approximately HK\$6.2 million in May 2015; (iii) purchase of property, plant and equipment of approximately HK\$1.2 million due to the relocation of our Group's offices in Hong Kong and PRC; (iv) placement of additional pledge bank deposit of approximately HK\$1.0 million as required for certain banking facilities upon release of personal guarantees from one of our Directors; and (v) net advances to a director of approximately HK\$4.1 million.

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Our net cash used in investing activities for the year ended 31 December 2014 was approximately HK\$13.9 million, which was mainly due to (i) net advances to a director of approximately HK\$2.3 million; (ii) net advances to related parties of approximately HK\$9.6 million; (iii) purchase of property, plant and equipment of approximately HK\$2.6 million comprising mainly motor vehicles; and (iv) proceeds from disposal of motor vehicles of approximately HK\$0.7 million.

Our net cash used in investing activities for the year ended 31 December 2013 was approximately HK\$29.0 million, which was principally due to (i) net advances to a director of approximately HK\$13.8 million; (ii) net advances to related parties of approximately HK\$9.8 million; and (iii) net advances to a director of a subsidiary of approximately HK\$5.8 million.

### *Net cash from financing activities*

Our net cash generated from financing activities for the year ended 31 December 2015 was approximately HK\$3.0 million, which was primarily attributable to (i) repayment to a director of a subsidiary of approximately HK\$5.8 million; (ii) repayment of bank borrowings of approximately HK\$80.9 million; and (iii) payment of interest of approximately HK\$1.2 million, which was partially offset by proceeds from new bank borrowings of approximately HK\$90.8 million mainly due to utilisation of trust receipt loans for trade finance purposes.

Our net cash generated from financing activities for the year ended 31 December 2014 was approximately HK\$9.2 million, which was mainly due to (i) proceeds from new bank borrowings of approximately HK\$79.1 million principally due to utilisation of trust receipt loans for trade finance purposes; (ii) repayment of bank borrowings of approximately HK\$64.7 million; and (iii) repayment to related parties of approximately HK\$4.5 million.

Our net cash generated from financing activities for the year ended 31 December 2013 was approximately HK\$15.9 million primarily due to (i) net advances from a director of a subsidiary of approximately HK\$5.8 million; (ii) proceeds from new bank borrowings of approximately HK\$41.7 million mainly due to utilisation of trust receipt loans for trade finance purposes; and (iii) repayment of bank borrowings of approximately HK\$30.7 million.

## CONTINGENT LIABILITIES

As at the Latest Practicable Date, we did not have any contingent liabilities that would have a material adverse impact on our financial position, liquidity or result of operation.



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### COMMITMENTS

#### Capital commitment

As at 31 December 2013, 2014 and 2015, we had no capital commitment.

#### Operating lease commitment

##### (a) Our Group as lessor

We owned investment properties and contracted with a tenant in Hong Kong for the following future minimum lease payments under non-cancellable operating lease as at the dates indicated:

|  | As at 31 December |            |          |
|--|-------------------|------------|----------|
|  | 2013              | 2014       | 2015     |
|  | HK\$'000          | HK\$'000   | HK\$'000 |
| Within one year                        | –                 | 264        | –        |
| In the second to fifth year, inclusive | –                 | 88         | –        |
|  | <u>–</u>          | <u>352</u> | <u>–</u> |

##### (b) Our Group as lessee

We leased offices in the PRC and Hong Kong for operation purpose under non-cancellable operating lease agreement. Leases are negotiated at term which range from 1 to 5 years.

The following table sets forth our future minimum lease payment under non-cancellable operating lease as of the end of the relevant reporting periods:

|  | As at 31 December |            |              |
|--|-------------------|------------|--------------|
|  | 2013              | 2014       | 2015         |
|  | HK\$'000          | HK\$'000   | HK\$'000     |
| Within one year                        | 709               | 675        | 1,170        |
| In the second to fifth year, inclusive | <u>1,926</u>      | <u>128</u> | <u>2,066</u> |
|  | <u>2,635</u>      | <u>803</u> | <u>3,236</u> |

### OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As at the Latest Practicable Date, we did not have any material off-balance sheet arrangements.

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### **[REDACTED] EXPENSES**

We commenced our preparation work for the [REDACTED] in September 2014. The estimated [REDACTED] expenses, which are non-recurrent in nature, are approximately HK\$[REDACTED] million of which approximately HK\$[REDACTED] million for the issue of new Shares is expected to be accounted for as a deduction from equity and approximately HK\$[REDACTED] million has been or will be charged to our profit and loss prior to or upon completion of the [REDACTED]. For the three years ended 31 December 2015, we have incurred [REDACTED] expenses of [REDACTED], approximately HK\$[REDACTED] and HK\$[REDACTED], respectively. For the remaining expenses, we expect to charge approximately HK\$[REDACTED] million to our profit or loss for the year ending 31 December 2016. We also wish to emphasise that our current estimated expenses in relation to the [REDACTED] set forth above are for reference only and the final amount to be recognised as our profit or loss for the year ending 31 December 2016 may be different and our estimation is also subject to changes in variables and assumptions at the relevant time.

### **FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

#### **Foreign currency risk**

Our revenue is denominated in USD due to the export-oriented nature of our business and our expenses, comprising primarily our payment to our footwear suppliers, are also mainly in USD, which is the functional currency of our Group. As HKD is pegged to USD, we do not expect any significant fluctuation in the exchange rate of HKD against USD. We currently do not undertake any foreign currency hedging. Our management will continue to monitor our foreign currency exposure.

#### **Interest rate risk**

Our Group is exposed to (i) fair value interest rate risk in relation to fixed-rate bank borrowings and bank overdrafts; and (ii) cash flow interest rate risk in relation to variable-rate bank balances and bank borrowings. During the Track Record Period, the impact of changes in interest rate was not significant to our Group.

We do not have any interest rate hedging policy currently. Nevertheless, our management closely monitors our Group's exposure to interest rate risk resulting from changes in market interest rates and will consider hedging significant interest rate risk should the need arise.

#### **Credit risk**

Our Group's maximum exposure to credit risk which will cause a financial loss to our Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statements of financial position of our Group.

Our Group's credit risk is primarily attributable to our trade and bills receivables and amount due from a director.

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## FINANCIAL INFORMATION

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Our Group’s exposure to credit risk is influenced mainly by the individual characteristics of each customer. As at 31 December 2013, 31 December 2014 and 31 December 2015, approximately 56.9%, 66.7% and 79.3%, respectively, of our total trade receivables were due from our five largest customers and approximately 5.0%, 4.7% and 45.3%, respectively, of our total trade receivables were due from our largest customer. As at 31 December 2013, 31 December 2014 and 31 December 2015, approximately 77.5%, 86.6% and 91.2%, respectively, of our total trade receivables were due from the five largest debtors (all being customers) and approximately 27.1%, 25.8% and 45.3%, respectively, of our total trade receivables were due from the largest debtor (being a customer). Credit limits attributed to customers and credit term granted to customers are reviewed regularly. Our trade and bills receivables that are neither past due nor impaired have no history of defaulting on repayments. Moreover, there was no impairment on trade and bills receivables during the Track Record Period. Our management reviews regularly the recoverability of our trade and bills receivables. In view of the credit worthiness and reputation of our major customers, our management believes the risk arising from concentration is manageable.

In addition, as at 31 December 2013, 2014 and 2015, our Group had an amount due from a director, namely Mr. KW Ho, of approximately HK\$16.3 million, HK\$17.1 million and HK\$21.3 million respectively. There was no history of default for the amount due from Mr. KW Ho. The amount will be settled in full before the [REDACTED].

### *Liquidity risk*

Our Group aims to maintain a sufficient level of bank balances and cash and adequate committed lines of funding to meet our liquidity requirements for operation which are closely monitored by our management team. We also closely monitor our utilisation of borrowings and ensure compliance with lending covenants.

### **DISTRIBUTABLE RESERVES**

As at 31 December 2015, our Company had no distributable reserve available for distribution to the Shareholders.

### **WORKING CAPITAL**

Our Directors are of the opinion that, after taking into account our Group’s internal resources, available banking facilities and the estimated net proceeds from the [REDACTED], and in the absence of unforeseen circumstances, we have sufficient working capital for our present requirements for at least the next 12 months from the date of this [REDACTED].

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## FINANCIAL INFORMATION

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### RECENT DEVELOPMENTS AND NO MATERIAL ADVERSE CHANGE

According to our unaudited consolidated financial information for the three months ended 31 March 2016, our revenue for the three months ended 31 March 2016 increased by approximately 27.7% as compared to that for the corresponding period in 2015, which was mainly due to the increase in our sales of formal footwear for men and children as well as casual footwear for men and women. Our gross profit margin improved slightly for the three months ended 31 March 2016 as compared to that for the corresponding period in the previous year mainly due to our success in negotiating with some of our footwear suppliers to lower their manufacturing price in view of the recent depreciation of Renminbi as mentioned above in this section. As of the Latest Practicable Date, our Group had received confirmed sales orders of approximately HK\$110.5 million.

Our Directors expect that our operating expenses will increase for the year ending 31 December 2016 due to (a) the increase in rental expenses for leasing of a new office incorporating a showroom in Hong Kong and the increase in staff costs resulting from the recruitment of additional staff (please refer to the section headed “Business – Our business objectives and strategies” in this [REDACTED] for further details); and (b) increase in freight and insurance charges in respect of sales under CIF terms. If our Group fails to control our operating expenses effectively, our profitability will be adversely affected.

Our Directors confirm that, save for the above and as disclosed in “[REDACTED] expenses” above in this section, there has been no material adverse change in the market condition in the industry in which we operate or the financial or trading position or prospects of our Group since 31 December 2015, being the date to which the latest audited consolidated financial statements of our Group were made up, and up to the date of this [REDACTED].

### DIVIDENDS

Ever Smart declared dividend during the year ended 31 December 2014 in the sum of HK\$26 million to Ever Sound, which in turn declared dividend in the same amount to Mr. KW Ho. Such dividend was fully settled in December 2014.

Save for the above, no dividends have been declared and paid by the companies now comprising our Group to their then respective shareholders during the Track Record Period and up to the Latest Practicable Date.

After completion of the [REDACTED], our Shareholders will be entitled to receive dividends only declared by our Company. Any amount of dividends to be declared and paid by our Company will be at the discretion of our Directors taking into consideration our future operations and earnings, capital requirements and surplus, general financial condition and such other factors that our Directors consider appropriate. Any declaration and payment as well as the amount of dividends will also be subject to our constitutional documents and the Companies Law, including (where required) the approval of shareholders. Therefore, there is no assurance that any particular dividend amount, or any dividend at all, will be declared and paid in the future.

## FINANCIAL INFORMATION

### UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following is an illustrative unaudited pro forma statement of adjusted consolidated net tangible assets of our Group attributable to owner of our Company which has been prepared in accordance with Rule 7.31 of the GEM Listing Rules for the purpose of illustrating the effect of the [REDACTED] on the audited consolidated net tangible assets of our Group attributable to owner of our Company as at 31 December 2015, as if the [REDACTED] had taken place on 31 December 2015.

The unaudited pro forma adjusted consolidated net tangible assets of our Group attributable to owner of our Company has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of our Group attributable to owner of our Company had the [REDACTED] been completed as at 31 December 2015 or at any future dates. It is prepared based on the audited consolidated net tangible assets of our Group attributable to owner of our Company as at 31 December 2015 as set out in the Accountants’ Report set out in Appendix I to this [REDACTED], and adjusted as described below.

| Audited<br>consolidated net<br>tangible assets<br>of our Group<br>attributable to<br>owner of our<br>Company as of<br>31 December<br>2015<br>HK\$’000<br>(Note 1) | Estimated net<br>proceeds from<br>the<br>[REDACTED]<br>HK\$’000<br>(Note 2) | Unaudited pro<br>forma adjusted<br>consolidated net<br>tangible assets<br>of our Group<br>attributable to<br>owner of our<br>Company<br>HK\$’000 | Unaudited pro<br>forma adjusted<br>consolidated net<br>tangible assets<br>of our Group<br>attributable to<br>owner of our<br>Company per<br>Share<br>HK\$<br>(Note 3) |
|---|---|--|---|
| Based on the<br>[REDACTED] of<br>HK\$[REDACTED] per<br>Share  | <u>[REDACTED]</u>   | <u>[REDACTED]</u>  | <u>[REDACTED]</u>   |

*Notes:*

1. The amount is determined based on audited consolidated net tangible assets of our Group attributable to owner of our Company as at 31 December 2015 amounting to approximately HK\$[REDACTED], extracted from the Accountants’ Report of our Group as set out in Appendix I to this [REDACTED].
2. The estimated net proceeds from the [REDACTED] are based on [REDACTED] Shares at the [REDACTED] of HK\$[REDACTED] per Share, after deduction of the estimated underwriting fees and other related expenses (excluding approximately HK\$[REDACTED] of [REDACTED] expenses accounted for prior to 31 December 2015). It does not take into account any shares which may be allotted and issued pursuant to the exercise of options which may be granted under the Share Option Scheme or any shares which may be allotted and issued or repurchased by our Company pursuant to the general mandate given to our Directors to allot and issue or repurchase shares referred to in the section headed “Share capital – General mandate to issue Shares” or “Share capital – General mandate to repurchase Shares” in this [REDACTED], as the case may be.

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## FINANCIAL INFORMATION

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3. The unaudited pro forma adjusted consolidated net tangible assets of our Group attributable to the owner of our Company per Share is calculated based on [REDACTED] Shares in issue immediately following the completion of the [REDACTED] and the Capitalisation Issue. It does not take into account any shares which may be allotted and issued pursuant to the exercise of options which may be granted under the Share Option Scheme or any shares which may be allotted and issued or repurchased by our Company pursuant to the general mandate given to our Directors to allot and issue or repurchase shares referred to in the section headed “Share capital – General mandate to issue Shares” or “Share capital – General mandate to repurchase Shares” in this [REDACTED], as the case may be.
4. No adjustment has been made to the unaudited pro forma adjusted consolidated net tangible assets of our Group attributable to owner of our Company as of 31 December 2015 to reflect any trading results or other transaction of our Group entered into subsequent to 31 December 2015.

### DISCLOSURE UNDER CHAPTER 17 OF THE GEM LISTING RULES

Our Directors have confirmed that, as at the Latest Practicable Date, they were not aware of any circumstances which would give rise to a disclosure requirement under Rules 17.15 to 17.21 of the GEM Listing Rules.

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## **FUTURE PLANS AND USE OF PROCEEDS**

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### **BUSINESS OBJECTIVES AND STRATEGIES**

Our business objectives are to maintain our growth in the footwear design and development, production management and logistics management service industry and enhance our overall competitiveness and market share. We will endeavor to achieve our business objectives by implementing the business strategies as described in the section headed “Business – Our business objectives and strategies” in this [REDACTED].

### **BASES AND ASSUMPTIONS**

Potential investors should note that the attainability of our business objectives depends on a number of assumptions, in particular:

- there will be no material changes in the existing political, legal, fiscal, social or economic conditions in Hong Kong, the PRC or in any other places in which any member of our Group carries on its business or will carry on its business;
- we will have sufficient financial resources to meet the planned capital expenditure (if any) and business development requirements during the period to which the business objective relate;
- there will be no material changes in the bases or rates of taxation in Hong Kong, the PRC or in any other places in which any member of our Group operates or will operate;
- there will be no material changes in legislation or regulations whether in Hong Kong or elsewhere materially affecting the business carried on by our Group;
- there will be no significant changes in our Group’s business relationship with our major customers and suppliers;
- there will be no material changes in the funding required for each of the scheduled achievements as outlined under “Implementation plan” in this section;
- the [REDACTED] will be completed in accordance with and as described in the section headed “Structure and conditions of the [REDACTED]” in this [REDACTED]; and
- our Group will not be materially affected by the risk factors as set out in the section headed “Risk factors” in this [REDACTED].



## FUTURE PLANS AND USE OF PROCEEDS

### IMPLEMENTATION PLAN

Our Group’s implementation plans are set forth below for each of the six-month periods until 31 October 2018. It should be noted that the implementation plans and their scheduled times for attainment are formulated on the bases and assumptions referred to “Bases and assumptions” in this section. These bases and assumptions are inherently subject to many uncertainties, variables and unpredictable factors, in particular the risk factors set out in the section headed “Risk factors” in this [REDACTED]. Our Group’s actual course of business may vary from the business objectives set out in this [REDACTED]. There can be no assurance that the plans of our Group will materialize in accordance with the expected time frame or that the objectives of our Group will be accomplished at all.

Based on our Group’s business objectives, our Directors intend to carry out the following implementation plan:

|   | From the Latest Practicable Date to 31 October 2016 | 30 April 2017 | For the six months ending 31 October 2017 | 30 April 2018 | 31 October 2018 | Total amount to be funded by net proceeds from the [REDACTED] |
|---|---|---------------|---|---------------|-----------------|---|
|   | HK\$’000  | HK\$’000      | HK\$’000                                  | HK\$’000      | HK\$’000        | HK\$’000  |
| <b>(1) Broadening our customer base and product offerings (Note 1)</b>  |   |               |   |               |                 |   |
| • Exploring overseas business opportunities by approaching potential customers through referrals by existing customers  | [REDACTED]  | [REDACTED]    | [REDACTED]                                | [REDACTED]    | [REDACTED]      | [REDACTED]  |
| • Frequently visiting our existing customers to strengthen our business relationship  | [REDACTED]  | [REDACTED]    | [REDACTED]                                | [REDACTED]    | [REDACTED]      | [REDACTED]  |
| • Participating in global sales conference of our major customers which are footwear brand owners to meet their licensees in order to create a higher profile and explore new business opportunities                                      | [REDACTED]  | [REDACTED]    | [REDACTED]                                | [REDACTED]    | [REDACTED]      | [REDACTED]  |
| • Leasing of a new office with a gross floor area of approximately 6,000 square feet incorporating a showroom and in proximity to our existing office premises in Cheung Sha Wan, Kowloon, Hong Kong to promote our products and services | [REDACTED]  | [REDACTED]    | [REDACTED]                                | [REDACTED]    | [REDACTED]      | [REDACTED]  |
| • Renovation of the new office in Hong Kong   | [REDACTED]  | [REDACTED]    | [REDACTED]                                | [REDACTED]    | [REDACTED]      | [REDACTED]  |

## FUTURE PLANS AND USE OF PROCEEDS

|   | From the Latest Practicable Date to 31 October 2016 | 30 April 2017 | For the six months ending 31 October 2017 | 30 April 2018 | 31 October 2018 | Total amount to be funded by net proceeds from the [REDACTED] |
|---|---|---------------|---|---------------|-----------------|---|
|   | HK\$'000  | HK\$'000      | HK\$'000                                  | HK\$'000      | HK\$'000        | HK\$'000  |
| <ul style="list-style-type: none"> <li>Recruitment of two sales staff based in Hong Kong who are diploma/degree holders and have about 4-5 years' experience in footwear industry to support our initiatives to broaden our customer base product offerings</li> </ul>  | [REDACTED]  | [REDACTED]    | [REDACTED]                                | [REDACTED]    | [REDACTED]      | [REDACTED]  |
| <b>Sub-total:</b>   | [REDACTED]  | [REDACTED]    | [REDACTED]                                | [REDACTED]    | [REDACTED]      | [REDACTED]  |
| <b>(2) Enhancing design, development and production management capabilities</b>   |   |               |   |               |                 |   |
| <ul style="list-style-type: none"> <li>Purchase of an Objet 500 Connex3 triple-jetting 3D printer</li> </ul>  | [REDACTED]  | [REDACTED]    | [REDACTED]                                | [REDACTED]    | [REDACTED]      | [REDACTED]  |
| <ul style="list-style-type: none"> <li>Recruitment of a specialised footwear 3D technician who is an exhibition, interior or product design diploma/degree holder, has about 3 years' experience in graphic design and is proficient in related software to operate the 3D printer</li> </ul>                 | [REDACTED]  | [REDACTED]    | [REDACTED]                                | [REDACTED]    | [REDACTED]      | [REDACTED]  |
| <ul style="list-style-type: none"> <li>Recruitment of two footwear designers who are fashion design or related higher diploma or degree holders, have about 3 years' relevant working experience and have experience in footwear design to enhance our product design and development capabilities</li> </ul> | [REDACTED]  | [REDACTED]    | [REDACTED]                                | [REDACTED]    | [REDACTED]      | [REDACTED]  |
| <ul style="list-style-type: none"> <li>Recruitment of a shoe technician who is a textiles, fabric or footwear related diploma/degree holder and has about 5 years' experience in footwear technology to assist our designers in product design and development</li> </ul>                                     | [REDACTED]  | [REDACTED]    | [REDACTED]                                | [REDACTED]    | [REDACTED]      | [REDACTED]  |
| <ul style="list-style-type: none"> <li>Recruitment of three quality control inspectors who have about 5 years' experience in footwear development or quality management and possess experience in quality control inspections and procedures to enhance manufacture monitoring</li> </ul>                     | [REDACTED]  | [REDACTED]    | [REDACTED]                                | [REDACTED]    | [REDACTED]      | [REDACTED]  |

## FUTURE PLANS AND USE OF PROCEEDS

|   | From the<br>Latest<br>Practicable<br>Date to 31<br>October<br>2016 | 30 April<br>2017  | For the six months ending<br>31 October<br>2017 | 30 April<br>2018  | 31 October<br>2018 | Total<br>amount to<br>be funded<br>by net<br>proceeds<br>from the<br>[REDACTED] |
|---|--|-------------------|---|-------------------|--------------------|---|
|   | HK\$'000   | HK\$'000          | HK\$'000  | HK\$'000          | HK\$'000           | HK\$'000  |
| <ul style="list-style-type: none"> <li>Recruitment of one shipping staff in the PRC who has high school education and possesses minimum 3 years' experience in shipping or logistic fields to assist in logistics management</li> </ul>                   | [REDACTED]   | [REDACTED]        | [REDACTED]                                      | [REDACTED]        | [REDACTED]         | [REDACTED]  |
| <b>Sub-total:</b>   | [REDACTED]   | [REDACTED]        | [REDACTED]                                      | [REDACTED]        | [REDACTED]         | [REDACTED]  |
| <b>(3) Obtaining licences of multiple brands</b> <i>(Note 2)</i>  |  |                   |   |                   |                    |   |
| <ul style="list-style-type: none"> <li>Obtaining brand licences with different identities to offer branded footwear designed by us and cover wider product categories, including brands mainly targeting adult's fashion and athletic footwear</li> </ul> | [REDACTED]   | [REDACTED]        | [REDACTED]                                      | [REDACTED]        | [REDACTED]         | [REDACTED]  |
| <ul style="list-style-type: none"> <li>Engaging professionals to perform investigations and due diligence on brand licensing</li> </ul>   | [REDACTED]   | [REDACTED]        | [REDACTED]                                      | [REDACTED]        | [REDACTED]         | [REDACTED]  |
| <b>Sub-total:</b>   | [REDACTED]   | [REDACTED]        | [REDACTED]                                      | [REDACTED]        | [REDACTED]         | [REDACTED]  |
| <b>(4) Enhancing our corporate image</b>  |  |                   |   |                   |                    |   |
| <ul style="list-style-type: none"> <li>Participating in footwear trade shows/fairs</li> </ul>   | [REDACTED]   | [REDACTED]        | [REDACTED]                                      | [REDACTED]        | [REDACTED]         | [REDACTED]  |
| <b>(5) Improving our information technology system</b>  |  |                   |   |                   |                    |   |
| <ul style="list-style-type: none"> <li>Enhancing and upgrading our business management system</li> </ul>  | [REDACTED]   | [REDACTED]        | [REDACTED]                                      | [REDACTED]        | [REDACTED]         | [REDACTED]  |
| <b>(6) General working capital and other general corporate uses</b>   | [REDACTED]   | [REDACTED]        | [REDACTED]                                      | [REDACTED]        | [REDACTED]         | [REDACTED]  |
| <b>Total:</b>   | <u>[REDACTED]</u>  | <u>[REDACTED]</u> | <u>[REDACTED]</u>                               | <u>[REDACTED]</u> | <u>[REDACTED]</u>  | <u>[REDACTED]</u>   |

*Notes:*

- Our selection criteria for potential customers comprise, among other things, the potential customers' brands, creditability, product spectrum and target markets taking into account compliance with International Sanctions Laws.
- Our Group is planning to approach footwear brand owners with recognisable brands and offer branded footwear that we design to our existing network of customers and attract new customers around the world. This would enable us to (i) diversify our product portfolio by providing a wide range of footwear designed by us, including adult's fashion and athletic footwear; (ii) broaden our customer base by exploring new business opportunities; and (iii) expand our scale of business operation.

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## FUTURE PLANS AND USE OF PROCEEDS

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### USE OF PROCEEDS

Our Company intends to, through the [REDACTED], enhance our Group’s profile and market recognition and increase our visibility in the market so as to promote our Group and our footwear to potential customers and the public. The [REDACTED] will provide our Group with fund raising channels in the stock markets and enable our Group to obtain bank financings at more favourable terms to finance our future development. Besides, the net proceeds from the [REDACTED] will strengthen our Group’s financial position and enable our Group to pursue the business plans as set out in this section.

We estimate that the net proceeds to be received by us from the [REDACTED], after deducting the underwriting commission and related expenses payable by our Company in the aggregate amount of approximately HK\$15.0 million, will be approximately HK\$45.0 million. We intend to apply the net proceeds from the [REDACTED] as follows:

- approximately HK\$[REDACTED] million, representing approximately [REDACTED]% of the net proceeds from the [REDACTED], will be used for broadening our customer base and product offerings;
- approximately HK\$[REDACTED] million, representing approximately [REDACTED]% of the net proceeds from the [REDACTED], will be used for enhancing our design, development and production management capabilities;
- approximately HK\$[REDACTED] million, representing approximately [REDACTED]% of the net proceeds from the [REDACTED], will be used for obtaining licences of multiple brands;
- approximately HK\$[REDACTED] million, representing approximately [REDACTED]% of the net proceeds from the [REDACTED], will be used for enhancing our corporate image;
- approximately HK\$[REDACTED] million, representing approximately [REDACTED]% of the net proceeds from the [REDACTED], will be used for improving our information technology system; and
- approximately HK\$[REDACTED] million, representing approximately [REDACTED]% of the net proceeds from the [REDACTED], will be used for general working capital and other general corporate uses of our Group.

In the event that any part of the future plans does not materialise or proceed as planned, we will carefully evaluate the situation and may reallocate the intended funding to our other future plans and/or place the proceeds on short-term interest bearing deposit accounts with licensed banks and/or financial institutions in Hong Kong so long as we consider it to be in the best interest of our Company and our Shareholders taken as a whole. Should our Directors decide to allocate the net proceeds from the [REDACTED] to business plans and/or new projects of our Group other than those disclosed in this [REDACTED] after the [REDACTED], we will make an announcement to notify our Shareholders and investors of the changes in compliance with the GEM Listing Rules.

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## UNDERWRITING

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[REDACTED] AND [REDACTED]

[REDACTED]

### CO-MANAGERS

[REDACTED]

[REDACTED]

### UNDERWRITING ARRANGEMENTS AND EXPENSES

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

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## UNDERWRITING

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[REDACTED]

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## UNDERWRITING

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[REDACTED]



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## UNDERWRITING

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[REDACTED]

*A. Lock-up undertakings to our Sole Sponsor, our [REDACTED] and our Underwriters*

*1. Undertakings by our Company*

[REDACTED]

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## UNDERWRITING

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[REDACTED]

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## UNDERWRITING

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[REDACTED]

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## UNDERWRITING

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[REDACTED]

***B. Lock-up undertakings to the Stock Exchange***

*1. Undertakings by our Company*

[REDACTED]

*2. Undertakings by our Controlling Shareholders*

[REDACTED]

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## UNDERWRITING

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[REDACTED]

### **Commission and expenses**

Our Underwriters are expected to receive a commission of [REDACTED]% of the aggregate [REDACTED] payable for the [REDACTED] underwritten by them, out of which they will pay any sub-underwriting commissions. The amount of underwriting commission is estimated to be approximately HK\$[REDACTED] million. Our Sole Sponsor will receive a documentation and advisory fee.

The underwriting commission, documentation and advisory fee, [REDACTED] fees, the Stock Exchange trading fee, the SFC transaction levy, legal and other professional fees together with printing and other expenses relating to the [REDACTED], are estimated to amount to approximately HK\$[REDACTED] million in total, and are payable by our Company.

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## UNDERWRITING

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### SOLE SPONSOR’S AND UNDERWRITERS’ INTEREST IN OUR COMPANY

Our Sole Sponsor will receive a documentation and advisory fee. Our Underwriters will receive an underwriting commission. Particulars of these underwriting commission and expenses are set forth under “Commission and expenses” above in this section.

We have appointed Kingston Corporate Finance Limited as our compliance adviser pursuant to Rule 6A.19 of the GEM Listing Rules for the period commencing on the [REDACTED] and ending on the date on which our Company complies with Rule 18.03 of the GEM Listing Rules in respect of our financial results for the first full year commencing after the [REDACTED].

Save as disclosed above, none of our Sole Sponsor and our Underwriters is interested legally or beneficially in shares of any members of our Group or has any right or option (whether legally enforceable or not) to subscribe for or purchase or to nominate persons to subscribe for or purchase securities in any of our members nor any interest in the [REDACTED].

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## **STRUCTURE AND CONDITIONS OF THE [REDACTED]**

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[REDACTED]



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## **STRUCTURE AND CONDITIONS OF THE [REDACTED]**

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[REDACTED]

## APPENDIX I

## ACCOUNTANTS’ REPORT



20 May 2016

The Directors  
Ever Smart International Holdings Limited

Kingston Corporate Finance Limited

Dear Sirs,

We set out below our report on the financial information (the “Financial Information”) relating to Ever Smart International Holdings Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) for each of the three years ended 31 December 2015 (the “Track Record Period”) for inclusion in the [REDACTED] of the Company dated 20 May 2016 in connection with the proposed [REDACTED] of the shares of the Company on the Growth Enterprise Market (the “GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) (the “[REDACTED]”).

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 6 February 2015. Through a group reorganisation, as fully explained in the section headed “History, Reorganisation and Corporate Structure – Reorganisation” in the [REDACTED] (the “Reorganisation”), the Company became the holding company of the companies comprising the Group on 20 August 2015.

At the end of each reporting period and the date of this report, the Company has equity interests in the following subsidiaries:

| Name of subsidiary  | Place and date of incorporation/<br>establishment          | Place of operation | Issued and fully paid share capital/<br>registered capital | Equity interest attributable to the Group as at |      |      | Date of this report | Principal activities  |
|---|--|--------------------|--|---|------|------|---------------------|---|
|   |  |                    |  | 31 December                                     |      | 2015 |                     |   |
|   |  |                    |  | 2013  | 2014 |      |                     |   |
|   |  |                    |  | %   | %    | %    | %                   |   |
| United Acme Limited (“United Acme”)*                                  | British Virgin Islands (“BVI”) 9 January 2015              | BVI                | US\$4  | N/A   | N/A  | 100  | 100                 | Investment holding  |
| Ever Smart International Enterprise Limited 永駿國際企業有限公司 (“Ever Smart”) | Hong Kong 6 August 2008                                    | Hong Kong          | HK\$1  | 100   | 100  | 100  | 100                 | Design, development, sourcing, marketing and sale of footwear |
| Ever Sky (HK) Trading Limited 天恒(香港)貿易有限公司 (“Ever Sky”)               | Hong Kong 3 December 2009                                  | Hong Kong          | HK\$1  | 100   | 100  | 100  | 100                 | Investment holding  |
| 東莞天達鞋業貿易有限公司 Dongguan Tin Da Shoes Trading Limited* (“Tin Da”)**      | The People’s Republic of China (the “PRC”) 3 December 2010 | The PRC            | HK\$5,000,000  | 100   | 100  | 100  | 100                 | Design, development and sourcing of footwear                  |
| Alliance International Sourcing Limited (“Alliance”)                  | Hong Kong 2 August 2010                                    | Hong Kong          | HK\$10,000   | 40**  | 100  | 100  | 100                 | Inactive <sup>△</sup>   |

## APPENDIX I

## ACCOUNTANTS’ REPORT

| Name of subsidiary             | Place and date of incorporation/<br>establishment   | Place of operation | Issued and fully paid share capital/<br>registered capital | Equity interest attributable to the Group as at |      |      | Date of this report | Principal activities |
|--------------------------------|---|--------------------|--|---|------|------|---------------------|----------------------|
|                                |   |                    |  | 31 December                                     |      | 2015 |                     |                      |
|                                |   |                    |  | 2013  | 2014 |      |                     |                      |
|                                |   |                    |  | %   | %    | %    | %                   |                      |
| Dodge & Swerve Limited (“D&S”) | Hong Kong<br>5 December 2013  | Hong Kong          | HK\$1  | 100   | 100  | 100  | 100                 | Inactive             |
| #                              | Directly held by the Company  |                    |  |   |      |      |                     |                      |
| ##                             | Accounted for as a subsidiary of the Company as Ever Smart is able to control the board of directors and exercise its rights to direct the relevant activities that significantly affect the investee’s return i.e. operating and financing decisions |                    |  |   |      |      |                     |                      |
| *                              | The English name is for identification purpose only   |                    |  |   |      |      |                     |                      |
| **                             | Limited liability company established in the PRC  |                    |  |   |      |      |                     |                      |
| △                              | Principally engaged in trading of shoes during the year ended 31 December 2013  |                    |  |   |      |      |                     |                      |

Each of the Company and its subsidiaries has adopted 31 December as their financial year end date.

No audited statutory financial statements have been prepared for the Company and its subsidiary incorporated in Cayman Islands and BVI since their respective dates of incorporation as they were incorporated in jurisdictions where there are no statutory audit requirements.

The statutory financial statements of all subsidiaries incorporated in Hong Kong for the year ended 31 December 2013 or since the date of incorporation, where it is a shorter period, were prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and were audited by RSM Nelson Wheeler, certified public accountants registered in Hong Kong.

The statutory financial statements of all subsidiaries incorporated in Hong Kong for the year ended 31 December 2014 were prepared in accordance with HKFRSs issued by the HKICPA. We have acted as the statutory auditor of all subsidiaries incorporated in Hong Kong for the years ended 31 December 2014 and 2015.

The statutory financial statements of Tin Da established in the PRC for each of the two years ended 31 December 2014 were prepared in accordance with the relevant accounting principles and financial regulations applicable to enterprises established in the PRC and were audited by 東莞市協誠會計師事務所, certified public accountants registered in the PRC.

The statutory financial statements of all subsidiaries incorporated/established in Hong Kong and the PRC for the year ended 31 December 2015 have not been issued as they are not yet due for issuance as at the date of this report.

For the purpose of this report, the directors of the Company have prepared the consolidated financial statements of the Group for the Track Record Period in accordance with accounting policies that conform with HKFRSs issued by the HKICPA (the “Underlying Financial Statements”). We have undertaken an independent audit of the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA. We have also examined the Underlying Financial Statements in accordance with the Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” as recommended by the HKICPA.

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## APPENDIX I

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## ACCOUNTANTS' REPORT

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The Financial Information of the Group for the Track Record Period set out in this report has been prepared from the Underlying Financial Statements on the basis of presentation set out in note 1 of the Section A below. No adjustments are considered necessary to the Underlying Financial Statements in preparing our report for inclusion in the [REDACTED].

The Underlying Financial Statements are the responsibility of the directors of the Company who approved their issue. The directors of the Company are also responsible for the contents of the [REDACTED] in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, on the basis of presentation set out in note 1 of the Section A below, the Financial Information gives, for the purpose of this report, a true and fair view of the financial position of the Company as at 31 December 2015 and of the Group as at 31 December 2013, 2014 and 2015 and of the financial performance and cash flows of the Group for the Track Record Period.

## APPENDIX I

## ACCOUNTANTS' REPORT

### A. FINANCIAL INFORMATION

#### CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

|   | NOTES | Year ended 31 December |                     |                     |
|---|-------|------------------------|---------------------|---------------------|
|   |       | 2013                   | 2014                | 2015                |
|   |       | HK\$'000               | HK\$'000            | HK\$'000            |
| Revenue   | 5     | 303,439                | 243,742             | 302,672             |
| Cost of sales   |       | <u>(268,342)</u>       | <u>(213,278)</u>    | <u>(261,474)</u>    |
| Gross profit  |       | 35,097                 | 30,464              | 41,198              |
| Other income  | 6     | 2,196                  | 5,582               | 2,733               |
| Other expenses  | 7     | (2,274)                | (3,159)             | (1,784)             |
| Other gains and losses  | 8     | (1,698)                | 324                 | (35)                |
| Selling and distribution expenses                                   |       | (7,310)                | (3,783)             | (7,453)             |
| Administrative expenses   |       | (12,771)               | (15,015)            | (16,920)            |
| [REDACTED] expenses   |       | –                      | (2,356)             | (7,285)             |
| Finance costs   | 9     | <u>(295)</u>           | <u>(703)</u>        | <u>(1,167)</u>      |
| Profit before taxation  |       | 12,945                 | 11,354              | 9,287               |
| Income tax expense  | 10    | <u>(2,784)</u>         | <u>(2,950)</u>      | <u>(2,851)</u>      |
| Profit for the year   | 11    | <u>10,161</u>          | <u>8,404</u>        | <u>6,436</u>        |
| <b>Other comprehensive (expense) income</b>                         |       |                        |                     |                     |
| <i>Item that will not be reclassified to profit or loss</i>         |       |                        |                     |                     |
| Revaluation on properties upon transfer to investment properties    |       | –                      | 847                 | –                   |
| <i>Item that may be reclassified subsequently to profit or loss</i> |       |                        |                     |                     |
| Exchange differences arising on translation of foreign operations   |       | <u>(23)</u>            | <u>11</u>           | <u>193</u>          |
| Other comprehensive (expense) income for the year                   |       | <u>(23)</u>            | <u>858</u>          | <u>193</u>          |
| Total comprehensive income for the year                             |       | <u><u>10,138</u></u>   | <u><u>9,262</u></u> | <u><u>6,629</u></u> |

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## ACCOUNTANTS’ REPORT

|  | <i>NOTE</i> | <b>Year ended 31 December</b> |                 |                 |
|--|-------------|-------------------------------|-----------------|-----------------|
|  |             | <b>2013</b>                   | <b>2014</b>     | <b>2015</b>     |
|  |             | <i>HK\$’000</i>               | <i>HK\$’000</i> | <i>HK\$’000</i> |
| Profit (loss) for the year attributable to:                        |             |                               |                 |                 |
| Owner of the Company   |             | 10,549                        | 8,406           | 6,436           |
| Non-controlling interests  |             | <u>(388)</u>                  | <u>(2)</u>      | <u>–</u>        |
|  |             | <u>10,161</u>                 | <u>8,404</u>    | <u>6,436</u>    |
| Total comprehensive income (expense) for the year attributable to: |             |                               |                 |                 |
| Owner of the Company   |             | 10,526                        | 9,264           | 6,629           |
| Non-controlling interests  |             | <u>(388)</u>                  | <u>(2)</u>      | <u>–</u>        |
|  |             | <u>10,138</u>                 | <u>9,262</u>    | <u>6,629</u>    |
| Earnings per share   |             |                               |                 |                 |
| – basic (HK cents)   | <i>14</i>   | <u>2.93</u>                   | <u>2.34</u>     | <u>1.79</u>     |

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## ACCOUNTANTS’ REPORT

### CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

|  |              | <u>The Group</u>         |                 |                 | <u>The Company</u>       |
|--|--------------|--------------------------|-----------------|-----------------|--------------------------|
|  |              | <u>As at 31 December</u> |                 |                 | <u>As at 31 December</u> |
|  | <i>NOTES</i> | <u>2013</u>              | <u>2014</u>     | <u>2015</u>     | <u>2015</u>              |
|  |              | <i>HK\$'000</i>          | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i>          |
| <b>NON-CURRENT ASSETS</b>                    |              |                          |                 |                 |                          |
| Property, plant and equipment                | 15           | 6,347                    | 2,898           | 2,747           | –                        |
| Investment properties                        | 16           | –                        | 5,800           | –               | –                        |
| Rental deposits                              |              | –                        | 100             | 306             | –                        |
| Investment in a subsidiary                   | 17           | –                        | –               | –               | 8,497                    |
|  |              | <u>6,347</u>             | <u>8,798</u>    | <u>3,053</u>    | <u>8,497</u>             |
| <b>CURRENT ASSETS</b>                        |              |                          |                 |                 |                          |
| Trade and bills receivables                  | 18           | 25,700                   | 35,653          | 55,807          | –                        |
| Other receivables, prepayments and deposits  | 18           | 11,846                   | 6,976           | 2,288           | 20                       |
| Amounts due from related parties             | 19           | 11,413                   | –               | –               | –                        |
| Amount due from a director                   | 19           | 16,264                   | 17,141          | 21,266          | –                        |
| Tax recoverable                              |              | –                        | 195             | –               | –                        |
| Pledged bank deposits                        | 20           | 1,005                    | 1,129           | 2,134           | –                        |
| Bank balances and cash                       | 20           | <u>4,221</u>             | <u>6,809</u>    | <u>5,510</u>    | <u>–</u>                 |
|  |              | <u>70,449</u>            | <u>67,903</u>   | <u>87,005</u>   | <u>20</u>                |
| <b>CURRENT LIABILITIES</b>                   |              |                          |                 |                 |                          |
| Trade and other payables                     | 21           | 34,713                   | 35,263          | 45,576          | 451                      |
| Amount due to a related party                | 19           | 910                      | –               | –               | –                        |
| Amount due to a director                     | 19           | –                        | –               | 109             | 109                      |
| Amount due to a subsidiary                   |              | –                        | –               | –               | 2,387                    |
| Tax payable                                  |              | 1,895                    | 389             | 370             | –                        |
| Bank borrowings – due within one year        | 22           | 13,178                   | 26,588          | 27,750          | –                        |
| Bank overdrafts                              | 22           | <u>–</u>                 | <u>3,943</u>    | <u>–</u>        | <u>–</u>                 |
|  |              | <u>50,696</u>            | <u>66,183</u>   | <u>73,805</u>   | <u>2,947</u>             |
| <b>NET CURRENT ASSETS (LIABILITIES)</b>      |              |                          |                 |                 |                          |
|  |              | <u>19,753</u>            | <u>1,720</u>    | <u>13,200</u>   | <u>(2,927)</u>           |
| <b>TOTAL ASSETS LESS CURRENT LIABILITIES</b> |              |                          |                 |                 |                          |
|  |              | <u>26,100</u>            | <u>10,518</u>   | <u>16,253</u>   | <u>5,570</u>             |

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## ACCOUNTANTS’ REPORT

|   |       | The Group         |              |               | The Company       |
|---|-------|-------------------|--------------|---------------|-------------------|
|   |       | As at 31 December |              |               | As at 31 December |
|   | NOTES | 2013              | 2014         | 2015          | 2015              |
|   |       | HK\$'000          | HK\$'000     | HK\$'000      | HK\$'000          |
| NON-CURRENT LIABILITIES                     |       |                   |              |               |                   |
| Bank borrowings – due after one year        | 22    | –                 | 1,013        | 461           | –                 |
| Deferred tax liability                      | 23    | <u>225</u>        | <u>368</u>   | <u>26</u>     | <u>–</u>          |
|   |       | <u>225</u>        | <u>1,381</u> | <u>487</u>    | <u>–</u>          |
| NET ASSETS                                  |       |                   |              |               |                   |
|   |       | <u>25,875</u>     | <u>9,137</u> | <u>15,766</u> | <u>5,570</u>      |
| CAPITAL AND RESERVES                        |       |                   |              |               |                   |
| Share capital                               | 24    | 4                 | 10           | –             | –                 |
| Reserves                                    | 25    | <u>25,940</u>     | <u>9,127</u> | <u>15,766</u> | <u>5,570</u>      |
| Equity attributable to owner of the Company |       |                   |              |               |                   |
|   |       | 25,944            | 9,137        | 15,766        | 5,570             |
| Non-controlling interests                   |       | <u>(69)</u>       | <u>–</u>     | <u>–</u>      | <u>–</u>          |
| TOTAL EQUITY                                |       |                   |              |               |                   |
|   |       | <u>25,875</u>     | <u>9,137</u> | <u>15,766</u> | <u>5,570</u>      |



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## ACCOUNTANTS’ REPORT

### CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

|   | Attributable to owner of the Company |                                    |  |  |                                 | Sub-total<br>HK\$'000 | Non-<br>controlling<br>interests<br>HK\$'000 | Total<br>equity<br>HK\$'000 |
|---|--------------------------------------|------------------------------------|--|--|---------------------------------|-----------------------|--|-----------------------------|
|   | Share<br>capital<br>HK\$'000         | Translation<br>reserve<br>HK\$'000 | Capital<br>reserve<br>HK\$'000<br>(Note) | Property<br>revaluation<br>reserve<br>HK\$'000 | Retained<br>profits<br>HK\$'000 |                       |  |                             |
| At 1 January 2013   | 4                                    | 20                                 | –  | –  | 15,394                          | 15,418                | 319  | 15,737                      |
| Exchange differences arising on the translation of foreign operations | –                                    | (23)                               | –  | –  | –                               | (23)                  | –  | (23)                        |
| Profit (loss) for the year  | –                                    | –                                  | –  | –  | 10,549                          | 10,549                | (388)  | 10,161                      |
| Total comprehensive income (expense) for the year                     | –                                    | (23)                               | –  | –  | 10,549                          | 10,526                | (388)  | 10,138                      |
| At 31 December 2013   | 4                                    | (3)                                | –  | –  | 25,943                          | 25,944                | (69)   | 25,875                      |
| Exchange differences arising on the translation of foreign operations | –                                    | 11                                 | –  | –  | –                               | 11                    | –  | 11                          |
| Revaluation on properties upon transfer to investment properties      | –                                    | –                                  | –  | 847  | –                               | 847                   | –  | 847                         |
| Profit (loss) for the year  | –                                    | –                                  | –  | –  | 8,406                           | 8,406                 | (2)  | 8,404                       |
| Total comprehensive income (expense) for the year                     | –                                    | 11                                 | –  | 847  | 8,406                           | 9,264                 | (2)  | 9,262                       |
| Acquisition of additional interest in a subsidiary                    | 6                                    | –                                  | (77)                                     | –  | –                               | (71)                  | 71   | –                           |
| Dividend (note 13)  | –                                    | –                                  | –  | –  | (26,000)                        | (26,000)              | –  | (26,000)                    |
| At 31 December 2014   | 10                                   | 8                                  | (77)                                     | 847  | 8,349                           | 9,137                 | –  | 9,137                       |
| Exchange differences arising on the translation of foreign operations | –                                    | 193                                | –  | –  | –                               | 193                   | –  | 193                         |
| Profit for the year   | –                                    | –                                  | –  | –  | 6,436                           | 6,436                 | –  | 6,436                       |
| Total comprehensive income for the year                               | –                                    | 193                                | –  | –  | 6,436                           | 6,629                 | –  | 6,629                       |
| Transfer upon disposal of investment properties                       | –                                    | –                                  | –  | (847)  | 847                             | –                     | –  | –                           |
| Reorganisation  | (10)                                 | –                                  | 10                                       | –  | –                               | –                     | –  | –                           |
| At 31 December 2015   | –                                    | 201                                | (67)                                     | –  | 15,632                          | 15,766                | –  | 15,766                      |

*Note:* Capital reserve represents i) the difference between the carrying amount of the non-controlling interests and the fair value of the consideration paid for the acquisition of additional 60% interest in a subsidiary, and ii) an amount of HK\$10,000 representing the sum of the share capital of Ever Smart, D&S and Alliance which have been transferred to capital reserve as part of the Reorganisation set out in note 1.

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## ACCOUNTANTS' REPORT

### CONSOLIDATED STATEMENTS OF CASH FLOWS

|   | Year ended 31 December |                 |                |
|---|------------------------|-----------------|----------------|
|   | 2013                   | 2014            | 2015           |
|   | HK\$'000               | HK\$'000        | HK\$'000       |
| <b>OPERATING ACTIVITIES</b>   |                        |                 |                |
| Profit before taxation  | 12,945                 | 11,354          | 9,287          |
| Adjustments for:  |                        |                 |                |
| Depreciation of property, plant and equipment                                     | 668                    | 870             | 896            |
| Finance costs   | 295                    | 703             | 1,167          |
| Interest income   | (7)                    | (8)             | (8)            |
| Write off of amount due from a former director of a subsidiary                    | 387                    | –               | –              |
| Write off of amount due from a company owned by a former director of a subsidiary | 1,250                  | –               | –              |
| (Gain) loss on disposal of property, plant and equipment                          | (474)                  | (97)            | 444            |
| Change in fair value of investment properties                                     | –                      | (400)           | (400)          |
| Operating cash flows before movements in working capital                          | 15,064                 | 12,422          | 11,386         |
| Increase in rental deposits   | –                      | (100)           | (206)          |
| Increase in trade and bills receivables   | (1,615)                | (9,953)         | (29,421)       |
| Decrease (increase) in other receivables, prepayments and deposits                | 2,081                  | 4,862           | (1,142)        |
| (Decrease) increase in trade and other payables                                   | (12,229)               | 562             | 16,143         |
| Cash generated from (used in) operations  | 3,301                  | 7,793           | (3,240)        |
| Income tax paid   | (2,717)                | (4,508)         | (2,963)        |
| <b>NET CASH FROM (USED IN) OPERATING ACTIVITIES</b>                               | <b>584</b>             | <b>3,285</b>    | <b>(6,203)</b> |
| <b>INVESTING ACTIVITIES</b>   |                        |                 |                |
| Advance to a director   | (14,602)               | (22,565)        | (5,354)        |
| Placement of pledged bank deposits  | (12,003)               | (12,124)        | (18,005)       |
| Advance to related parties  | (10,072)               | (12,707)        | –              |
| Advance to a director of a subsidiary   | (21,839)               | (13,267)        | –              |
| Purchase of property, plant and equipment   | (729)                  | (2,559)         | (1,246)        |
| Interest received   | 7                      | 8               | 8              |
| Repayment from related parties  | 224                    | 3,144           | –              |
| Repayment from a director   | 803                    | 20,227          | 1,229          |
| Proceeds from disposal of property, plant and equipment                           | 1,185                  | 680             | –              |
| Withdrawal of pledged bank deposits   | 12,000                 | 12,000          | 17,000         |
| Repayment from a director of a subsidiary   | 16,001                 | 13,275          | 5,830          |
| Proceed from disposal of investment properties                                    | –                      | –               | 6,200          |
| <b>NET CASH (USED IN) FROM INVESTING ACTIVITIES</b>                               | <b>(29,025)</b>        | <b>(13,888)</b> | <b>5,662</b>   |

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## ACCOUNTANTS’ REPORT

|  | Year ended 31 December |                 |                 |
|--|------------------------|-----------------|-----------------|
|  | 2013                   | 2014            | 2015            |
|  | HK\$'000               | HK\$'000        | HK\$'000        |
| FINANCING ACTIVITIES                                 |                        |                 |                 |
| New bank loans raised                                | 41,731                 | 79,073          | 90,755          |
| Advance from a director of a subsidiary              | 21,839                 | 13,267          | –               |
| Advance from related parties                         | 1,001                  | –               | –               |
| Advance from a director                              | –                      | –               | 109             |
| Repayment to a director of a subsidiary              | (16,001)               | (13,275)        | (5,830)         |
| Interest paid  | (295)                  | (703)           | (1,167)         |
| Repayment to related parties                         | (1,630)                | (4,473)         | –               |
| Repayment of bank loans                              | <u>(30,725)</u>        | <u>(64,650)</u> | <u>(80,878)</u> |
| NET CASH FROM FINANCING ACTIVITIES                   | <u>15,920</u>          | <u>9,239</u>    | <u>2,989</u>    |
| NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS | (12,521)               | (1,364)         | 2,448           |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR   | 16,754                 | 4,221           | 2,866           |
| EFFECT OF FOREIGN EXCHANGE RATE CHANGES              | <u>(12)</u>            | <u>9</u>        | <u>196</u>      |
| CASH AND CASH EQUIVALENTS AT END OF THE YEAR         | <u>4,221</u>           | <u>2,866</u>    | <u>5,510</u>    |
| ANALYSIS OF CASH AND CASH EQUIVALENTS                |                        |                 |                 |
| Bank balances and cash                               | 4,221                  | 6,809           | 5,510           |
| Bank overdrafts                                      | <u>–</u>               | <u>(3,943)</u>  | <u>–</u>        |
|  | <u>4,221</u>           | <u>2,866</u>    | <u>5,510</u>    |

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## ACCOUNTANTS’ REPORT

### NOTES TO THE FINANCIAL INFORMATION

#### 1. GROUP REORGANISATION AND BASIS OF PRESENTATION OF FINANCIAL INFORMATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 6 February 2015. The addresses of the Company’s registered office and the principal place of business are disclosed in the section “Corporate Information” in the [REDACTED]. Its parent and ultimate holding company is Asia Matrix Investments Limited (“Asia Matrix”). The ultimate controlling shareholder of the Group is Mr. Ho Kin Wai who has historically and throughout the Track Record Period been the controlling shareholder of the Group (the “Controlling Shareholder”).

The Company is an investment holding company. The principal activities of its subsidiaries are engaged in the design, development, sourcing, marketing and sale of footwear.

The companies now comprising the Group underwent a series of reorganisation. Before the completion of the Reorganisation, Alliance, D&S, Ever Smart and its wholly owned subsidiaries, Ever Sky and Tin Da, were controlled and owned by Ever Sound International Limited (“Ever Sound”), a company wholly-owned by Mr. Ho Kin Wai, the Controlling Shareholder. On 9 January 2015, United Acme and Asia Matrix were incorporated by the Controlling Shareholder and on 5 February 2015, United Acme entered into share transfer agreements with Ever Sound to acquire the entire issued share capital of Alliance, D&S and Ever Smart. On 6 February 2015, the Company was incorporated by the Controlling Shareholder and Asia Matrix became the holding company of the Company on 20 August 2015 through a share transfer agreement.

Pursuant to the Reorganisation, the Company became the holding company of the companies now comprising the Group by acquiring the entire equity interest in United Acme on 20 August 2015 at nominal consideration. The Group comprising the Company and its subsidiaries resulting from the Reorganisation is regarded as a continuing entity. Accordingly, the Financial Information has been prepared as if the Company had always been the holding company of the Group.

The consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the Track Record Period have been prepared to present the results, changes in equity and cash flows of the companies now comprising the Group, as if the group structure upon the completion of the Reorganisation had been in existence throughout the Track Record Period or since the respective dates of incorporation where this is a shorter period. The consolidated statements of financial position of the Group as at 31 December 2013 and 2014 have been prepared to present the assets and liabilities of the companies now comprising the Group as if the current group structure had been in existence at those dates.

The Financial Information is presented in Hong Kong dollars (“HK\$”), which is different from the functional currency of the Company, United States dollars (“US\$”). The management of the Group considers that presenting the Financial Information in HK\$ is preferable as the Company intends to list its shares on the Stock Exchange and most of its potential investors are located in Hong Kong.

#### 2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS

For the purpose of preparing and presenting the Financial Information for the Track Record Period, the Group has consistently adopted the HKFRSs, Hong Kong Accounting Standards (“HKASs”), amendments and interpretations issued by the HKICPA which are effective for the accounting periods beginning on 1 January 2015 throughout the Track Record Period.

At the date of this report, the HKICPA has issued the following new standards and amendments that are not yet effective. The Group has not early adopted these new standards and amendments.

|                        |   |
|------------------------|---|
| HKFRS 9                | Financial Instruments <sup>1</sup>  |
| HKFRS 14               | Regulatory Deferral Accounts <sup>2</sup>                                 |
| HKFRS 15               | Revenue from Contracts with Customers <sup>1</sup>                        |
| Amendments to HKFRS 11 | Accounting for Acquisitions of Interests in Joint Operations <sup>3</sup> |
| Amendments to HKAS 1   | Disclosure Initiative <sup>3</sup>  |

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|  |  |
|--|--|
| Amendments to HKAS 16 and HKAS 38            | Clarification of Acceptable Methods of Depreciation and Amortisation <sup>3</sup>                  |
| Amendments to HKAS 16 and HKAS 41            | Agriculture: Bearer Plants <sup>3</sup>  |
| Amendments to HKAS 27                        | Equity Method in Separate Financial Statements <sup>3</sup>  |
| Amendments to HKFRS 10 and HKAS 28           | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>4</sup> |
| Amendments to HKFRS 10, HKFRS 12 and HKAS 28 | Investment Entities: Applying the Consolidation Exception <sup>3</sup>                             |
| Amendments to HKFRSs                         | Annual Improvements to HKFRSs 2012-2014 Cycle <sup>3</sup>   |

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2018.

<sup>2</sup> Effective for first annual HKFRS financial statements beginning on or after 1 January 2016.

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2016.

<sup>4</sup> Effective for annual periods beginning on or after a date to be determined.

The management of the Group is in the process of making an assessment of the impact of the application of these new standards and amendments on the Financial Information of the Group.

### 3. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared on the historical cost basis except for certain properties that are measured at fair value at the end of each reporting period, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

The Financial Information has been prepared in accordance with the following accounting policies which conform with HKFRSs issued by the HKICPA. In addition, the Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange and the Hong Kong Companies Ordinance.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristic of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in the Financial Information is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 “Share-based Payment”, leasing transactions that are within the scope of HKAS 17 “Leases”, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 “Inventories” or value in use in HKAS 36 “Impairment of Assets”.

In addition, for financial reporting purpose, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

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The principal accounting policies adopted are as follows:

### **Basis of consolidation**

The Financial Information incorporates the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group’s voting rights in an investee are sufficient to give it power, including:

- the size of the Group’s holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders’ meetings.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owner of the Company and to the non-controlling interests. Total comprehensive income and expense of a subsidiary is attributed to the owner of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group’s accounting policies.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Non-controlling interests in a subsidiary are presented separately from the Group’s equity therein.

### **Changes in the Group’s ownership interests in existing subsidiaries**

Changes in the Group’s ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group’s interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the carrying amount of the net assets attributable to the change in interests by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owner of the Company.

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### **Merger accounting for business combination involving entities under common control**

The Financial Information incorporate the financial statements items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are consolidated using the existing book values from the controlling party’s perspective. No amount is recognised in respect of goodwill or excess of acquirer’s interest in the net fair value of acquiree’s identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party’s interest.

The combined statements of profit or loss and other comprehensive income include the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

### **Investment in a subsidiary**

Investment in a subsidiary included in the Company’s statement of financial position is stated at cost less any identified impairment loss.

### **Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset’s net carrying amount on initial recognition.

The Group’s policy for recognition of rental income from operating leases is described in the accounting policy of “Leasing” below.

### **Leasing**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

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### *The Group as lessor*

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

### *The Group as lessee*

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis.

### **Foreign currencies**

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity’s functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the Financial Information, the assets and liabilities of the Group’s foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve.

On the disposal of a foreign operation (i.e. a disposal of the Group’s entire interest in a foreign operation and a disposal involving loss of control over a subsidiary that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owner of the Company are reclassified to profit or loss.

### **Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the year in which they are incurred.

### **Taxation**

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from “profit before taxation” as reported in the consolidated statements of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group’s current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.



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Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the Financial Information and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax liabilities and deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

Current and deferred tax are recognised in profit or loss.

### **Retirement benefit costs**

Payments to the defined contribution plans including the Mandatory Provident Fund Scheme and PRC state-managed retirement benefits schemes are recognised as an expense when employees have rendered service entitling them to the contributions.

### **Property, plant and equipment**

Property, plant and equipment including leasehold land and buildings held for use for administrative purposes, are stated in the consolidated statements of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of assets less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

If an item of property, plant and equipment becomes an investment property because its use has changed as evidenced by end of owner-occupation, any difference between the carrying amount and the fair value of that item at the date of transfer is recognised in other comprehensive income and accumulated in property revaluation reserve. On the subsequent sale or retirement of the asset, the relevant revaluation reserve will be transferred directly to retained profits.

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An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

### **Investment properties**

Investment properties are properties held to earn rentals and/or for capital appreciation.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair value using the fair value model. Gain or losses arising from changes in the fair value of investment properties are included in profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the assets) is included in the profit or loss in the period in which the property is derecognised.

### **Financial instruments**

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

### ***Financial assets***

Financial assets of the Group are mainly classified into loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

### ***Effective interest method***

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

### ***Loans and receivables***

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and bills receivables, other receivables, amount(s) due from related parties/a director, pledged bank deposits and bank balances and cash) are measured at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

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### *Impairment of financial assets*

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment of financial assets could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade receivables, assets are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Group’s past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the respective credit period, observable changes in national or local economic conditions that correlate with default on receivables.

The amount of the impairment loss recognised is the difference between the asset’s carrying amount and the present value of the estimated future cash flows, discounted at the financial asset’s original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

### *Financial liabilities and equity instruments*

Debt and equity instruments issued by a group entity are classified either as financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

#### *Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the group entities are recognised at the proceeds received, net of direct issue costs.

#### *Financial liabilities*

Financial liabilities (including trade and other payables, amount due to a related party, amount due to a director, bank borrowings and bank overdrafts) are subsequently measured at amortised cost, using the effective interest method.

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### *Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

### ***Derecognition***

The Group derecognised a financial asset only when the contractual rights to the cash flows from the assets expire or, when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liabilities derecognised and the consideration paid and payable is recognised in profit or loss.

### **Impairment losses**

At the end of the reporting period, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

## **4. CRITICAL ACCOUNTING JUDGMENT AND KEY SOURCE OF ESTIMATION UNCERTAINTY**

In the application of the Group's accounting policies, which are described in note 3, the management of the Group are required to make judgments and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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### **Critical judgment in applying accounting policies**

The following is the critical judgment that the management of the Group has made in the process of applying the Group's accounting policies and that has the most significant effect on the amounts recognised in the Financial Information.

#### *Deferred taxation on investment properties*

For the purposes of measuring deferred tax liabilities or deferred tax assets arising from investment properties that are measured using the fair value model, the management of the Group have concluded that the Group's investment properties are not held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale. Therefore, in measuring the Group's deferred taxation on investment properties, the management of the Group have determined that the presumption that the carrying amounts of investment properties measured using the fair value model are recovered entirely through sale is not rebutted. As a result, the Group has not recognised any deferred taxes on changes in fair value of investment properties as the Group is not subject to any income taxes on disposal of its investment properties.

### **Key source of estimation uncertainty**

The following is the key assumption concerning the future, and other key source of estimation uncertainty at the end of the reporting period, that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

#### *Impairment loss for receivables*

Where there is objective evidence of impairment loss, the Group estimates the impairment loss for receivables by assessing the recoverability based on credit history and prevailing market conditions. This requires the use of estimates and judgments. Allowances are applied to trade receivables where events or changes in circumstances indicate that the balances may not be collectible while direct write off would be applied for other items of loans and receivables. Where the expectation is different from the original estimate, such difference will affect the carrying amounts of the receivables and thus the impairment loss in the period in which such estimate is changed. The Group reassesses the impairment allowances at the end of each reporting period. The carrying amounts of respective receivables are disclosed in notes 18 and 19. During the year ended 31 December 2013, the Group had written off the amounts due from a company owned by a former director of a subsidiary and a former director of a subsidiary with details set out in note 8.

## **5. REVENUE AND SEGMENT INFORMATION**

Revenue represents revenue arising on trading of footwear.

The Group's operating segment is determined based on information reported to the chief operating decision maker of the Group (the director of the major operating subsidiary) for the purpose of resource allocation and performance assessment. For management purpose, the Group operates in one business unit based on their products, and has one operating segment: design, development, sourcing, marketing and sale of footwear. The chief operating decision maker would review the monthly sales reports and monitors the revenue, results, assets and liabilities of its business unit as a whole. The chief operating decision maker considers the segment assets and segment liabilities of the Group, which included all assets, except investment properties, and all liabilities as stated in the consolidated statements of financial position respectively, and considers the segment revenue same as total sales made to external parties as disclosed in the consolidated statements of profit and loss and other comprehensive income, and the segment results of the Group represented the Group's profit before taxation, rental income, other gains and losses and [REDACTED] expenses, as stated in the consolidated statements of profit or loss and other comprehensive income.

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The followings is an analysis of the Group’s revenue and results by operating and reportable segment:

*For the year ended 31 December 2013*

|                            | <b>Design, development,<br/>sourcing, marketing<br/>and sale of footwear</b><br><i>HK\$’000</i> |
|----------------------------|---|
| Segment revenue – external | 303,439   |
| Segment profit             | 14,643  |
| Other gains and losses     | (1,698)   |
| Profit before taxation     | 12,945  |

*For the year ended 31 December 2014*

|                            | <b>Design, development,<br/>sourcing, marketing<br/>and sale of footwear</b><br><i>HK\$’000</i> |
|----------------------------|---|
| Segment revenue – external | 243,742   |
| Segment profit             | 13,210  |
| Unallocated income         | 176   |
| Other gains and losses     | 324   |
| [REDACTED] expenses        | (2,356)   |
| Profit before taxation     | 11,354  |

*For the year ended 31 December 2015*

|                            | <b>Design, development,<br/>sourcing, marketing<br/>and sale of footwear</b><br><i>HK\$’000</i> |
|----------------------------|---|
| Segment revenue – external | 302,672   |
| Segment profit             | 16,511  |
| Unallocated income         | 96  |
| Other gains and losses     | (35)  |
| [REDACTED] expenses        | (7,285)   |
| Profit before taxation     | 9,287   |

The accounting policies of the operating segments are the same as the Group’s accounting policies described in Note 3.

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### Segment assets

The following is an analysis of the Group’s assets by operating and reportable segment:

|                       | At 31 December |               |               |
|-----------------------|----------------|---------------|---------------|
|                       | 2013           | 2014          | 2015          |
|                       | HK\$’000       | HK\$’000      | HK\$’000      |
| Total segment assets  | 76,796         | 70,901        | 90,058        |
| Investment properties | —              | 5,800         | —             |
| Consolidated assets   | <u>76,796</u>  | <u>76,701</u> | <u>90,058</u> |

### Revenue from major products

The Group’s revenue from its products were as follows:

|                     | Year ended 31 December |                |                |
|---------------------|------------------------|----------------|----------------|
|                     | 2013                   | 2014           | 2015           |
|                     | HK\$’000               | HK\$’000       | HK\$’000       |
| Men’s footwear      | 123,119                | 158,744        | 201,576        |
| Children’s footwear | 168,739                | 67,614         | 84,439         |
| Women’s footwear    | <u>11,581</u>          | <u>17,384</u>  | <u>16,657</u>  |
|                     | <u>303,439</u>         | <u>243,742</u> | <u>302,672</u> |

### Geographical information

The Group’s operations are located in Hong Kong and the PRC.

Information about the Group’s revenue from external customers presented based on the geographical locations of the shipment destinations, irrespective of the origin of the goods, is detailed below:

|                      | Year ended 31 December |                |                |
|----------------------|------------------------|----------------|----------------|
|                      | 2013                   | 2014           | 2015           |
|                      | HK\$’000               | HK\$’000       | HK\$’000       |
| Australia            | 88,141                 | 96,641         | 110,345        |
| United Kingdom       | 10,512                 | 35,021         | 85,020         |
| Chile                | 15,022                 | 15,411         | 17,598         |
| Belgium              | 3,823                  | 9,389          | 11,738         |
| New Zealand          | 9,850                  | 13,863         | 10,698         |
| United States        | 10,754                 | 11,152         | 9,722          |
| United Arab Emirates | 8,928                  | 13,180         | 7,582          |
| Russia               | 94,962                 | 1,220          | —              |
| Others*              | <u>61,447</u>          | <u>47,865</u>  | <u>49,969</u>  |
|                      | <u>303,439</u>         | <u>243,742</u> | <u>302,672</u> |

\* The revenue from individual country included in “Others” did not contribute over 10% of the total revenue of the Group for the relevant year.

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Information about the Group’s non-current assets is presented based on the geographical location of the assets:

|           | As at 31 December |              |              |
|-----------|-------------------|--------------|--------------|
|           | 2013              | 2014         | 2015         |
|           | HK\$’000          | HK\$’000     | HK\$’000     |
| Hong Kong | 6,090             | 8,613        | 1,952        |
| PRC       | <u>257</u>        | <u>185</u>   | <u>1,101</u> |
|           | <u>6,347</u>      | <u>8,798</u> | <u>3,053</u> |

### Information about major customers

Revenue from customers of the corresponding years individually contributing over 10% of the Group’s revenue are as follows:

|            | Year ended 31 December |             |               |
|------------|------------------------|-------------|---------------|
|            | 2013                   | 2014        | 2015          |
|            | HK\$’000               | HK\$’000    | HK\$’000      |
| Customer A | 87,039                 | 79,458      | N/A*          |
| Customer B | 94,962                 | N/A*        | N/A*          |
| Customer C | N/A*                   | N/A*        | 67,511        |
| Customer D | <u>N/A*</u>            | <u>N/A*</u> | <u>92,293</u> |

\* The corresponding revenue did not contribute over 10% of the total revenue of the Group for the relevant year.

### 6. OTHER INCOME

|  | Year ended 31 December |              |              |
|--|------------------------|--------------|--------------|
|  | 2013                   | 2014         | 2015         |
|  | HK\$’000               | HK\$’000     | HK\$’000     |
| Claims received ( <i>note</i> )          | 1,415                  | 4,300        | 1,594        |
| Accessory procurement income             | 456                    | 799          | 21           |
| Sample income                            | 219                    | 179          | 791          |
| Rental income from investment properties | –                      | 176          | 96           |
| Interest income                          | 7                      | 8            | 8            |
| Miscellaneous income                     | <u>99</u>              | <u>120</u>   | <u>223</u>   |
|  | <u>2,196</u>           | <u>5,582</u> | <u>2,733</u> |

*Note:* Claims received represent compensations received from customers due to cancellation of orders or from suppliers for sub-quality products, based on contract terms.



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### 7. OTHER EXPENSES

|                             | Year ended 31 December |              |              |
|-----------------------------|------------------------|--------------|--------------|
|                             | 2013                   | 2014         | 2015         |
|                             | HK\$'000               | HK\$'000     | HK\$'000     |
| Claims paid ( <i>note</i> ) | 2,096                  | 2,839        | 1,708        |
| Donation                    | 178                    | 320          | 76           |
|                             | <u>2,274</u>           | <u>3,159</u> | <u>1,784</u> |

*Note:* Claims paid represent compensations paid to suppliers for cancellation of orders or to customers for sub-quality products, based on contract terms.

### 8. OTHER GAINS AND LOSSES

|   | Year ended 31 December |            |             |
|---|------------------------|------------|-------------|
|   | 2013                   | 2014       | 2015        |
|   | HK\$'000               | HK\$'000   | HK\$'000    |
| Change in fair value of investment properties   | –                      | 400        | 400         |
| Gain (loss) on disposal of property, plant and equipment  | 474                    | 97         | (444)       |
| Write off of amount due from a company owned by a former director of a subsidiary ( <i>note</i> ) | (1,250)                | –          | –           |
| Write off of amount due from a former director of a subsidiary ( <i>note</i> )                    | (387)                  | –          | –           |
| Net foreign exchange (losses) gains   | (532)                  | (173)      | 9           |
| Others  | (3)                    | –          | –           |
|   | <u>(1,698)</u>         | <u>324</u> | <u>(35)</u> |

*Note:* The amounts due from a company owned by a former director of a subsidiary and from a former director of a subsidiary were written off as uncollectible.

### 9. FINANCE COSTS

|  | Year ended 31 December |          |          |
|--|------------------------|----------|----------|
|  | 2013                   | 2014     | 2015     |
|  | HK\$'000               | HK\$'000 | HK\$'000 |
| Interest on bank borrowings wholly repayable within five years | 295                    | 703      | 1,167    |

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### 10. INCOME TAX EXPENSE

|  | Year ended 31 December |              |              |
|--|------------------------|--------------|--------------|
|  | 2013                   | 2014         | 2015         |
|  | HK\$'000               | HK\$'000     | HK\$'000     |
| Hong Kong Profits Tax ( <i>note i</i> )              |                        |              |              |
| – current year                                       | 2,656                  | 2,842        | 3,121        |
| – overprovision in prior years                       | (10)                   | (20)         | (305)        |
| PRC Enterprise Income Tax (“EIT”) ( <i>note ii</i> ) |                        |              |              |
| – current year                                       | 130                    | (15)         | 377          |
| Deferred tax ( <i>note 23</i> )                      | 8                      | 143          | (342)        |
|  | <u>2,784</u>           | <u>2,950</u> | <u>2,851</u> |

*Notes:*

#### (i) Hong Kong

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit during the Track Record Period.

#### (ii) PRC

PRC EIT is calculated based on the statutory rate of 25% of the assessable profit for the subsidiary established in the PRC, as determined in accordance with the relevant income tax rules and regulations in the PRC. For the year ended 31 December 2014, the subsidiary established in the PRC is entitled to the preferential tax rate of 20% as it is qualified as small-scale enterprise as pursuant to the Law of the PRC on Enterprise Income Tax (the “EIT Law”) and Implementation Regulation of the EIT Law. For the year ended 31 December 2015, the subsidiary established in the PRC is subject to the statutory rate of 25% as it is not qualified as a small-scale enterprise.

The tax charge for the Track Record Period can be reconciled to the profit before taxation per the consolidated statements of profit or loss and other comprehensive income as follows:

|   | Year ended 31 December |               |              |
|---|------------------------|---------------|--------------|
|   | 2013                   | 2014          | 2015         |
|   | HK\$'000               | HK\$'000      | HK\$'000     |
| Profit before taxation  | <u>12,945</u>          | <u>11,354</u> | <u>9,287</u> |
| Tax at Hong Kong Profits tax rate of 16.5% ( <i>Note</i> )  | 2,136                  | 1,873         | 1,532        |
| Tax effect of expenses not deductible for tax purposes  | 617                    | 1,124         | 1,626        |
| Tax effect of income not taxable for tax purposes   | (36)                   | (66)          | (67)         |
| Effect of different tax rate of subsidiary operating in other jurisdiction                          | 62                     | 9             | 129          |
| Overprovision in prior years  | (10)                   | (20)          | (305)        |
| Tax effect of taxable profit which is under tax concessions   | –                      | (16)          | –            |
| Tax effect of tax losses not recognised   | 15                     | 49            | –            |
| Utilisation of tax losses previously not recognised   | –                      | –             | (64)         |
| Reversal of previously recognised deferred tax of properties upon transfer to investment properties | –                      | (3)           | –            |
| Income tax expense for the year   | <u>2,784</u>           | <u>2,950</u>  | <u>2,851</u> |

*Note:* The income tax rate in the jurisdiction where the operations of the Group substantially based is used.

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### 11. PROFIT FOR THE YEAR

|  | Year ended 31 December |          |          |
|--|------------------------|----------|----------|
|  | 2013                   | 2014     | 2015     |
|  | HK\$'000               | HK\$'000 | HK\$'000 |
| Profit for the year has been arrived at after charging<br>(crediting):                             |                        |          |          |
| Directors’ remuneration  | 4,237                  | 4,331    | 4,216    |
| Other staff costs (excluding directors’ remuneration):   |                        |          |          |
| – Salaries, bonuses and other benefits   | 10,860                 | 9,370    | 12,382   |
| – Retirement benefit scheme contributions  | 973                    | 1,353    | 1,278    |
| Total staff costs  | 16,070                 | 15,054   | 17,876   |
| Auditor’s remuneration   | 199                    | 1,084    | 1,374    |
| Depreciation of property, plant and equipment  | 668                    | 870      | 896      |
| Cost of inventories recognised as an expense   | 253,244                | 205,238  | 252,637  |
| Gross rental income from investment properties   | –                      | (176)    | (96)     |
| Less: direct operating expenses incurred for investment<br>properties that generated rental income | –                      | 8        | 14       |
|  | –                      | (168)    | (82)     |
| Operating lease rental expense in respect of rental premises                                       | 1,321                  | 1,235    | 1,390    |

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### 12. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

#### (a) Directors' and the chief executive's emoluments

Details of the emoluments paid or payable (including emoluments for the services as employees of the group entities prior to becoming directors of the Company) to the individuals during the Track Record Period who were appointed as the directors and the chief executive of the Company on 18 September 2015 are as follows:

| Name of director                               | Fee<br>HK\$'000 | Salaries<br>and other<br>benefits<br>HK\$'000 | Incentive<br>performance<br>bonus<br>HK\$'000 | Retirement<br>benefit<br>scheme<br>contributions<br>HK\$'000 | Total<br>HK\$'000 |
|--|-----------------|---|---|--|-------------------|
| <i>For the year ended<br/>31 December 2013</i> |                 |   |   |  |                   |
| <b>Executive directors</b>                     |                 |   |   |  |                   |
| Mr. Ho Kin Wai (chief executive)               | 745             | 478   | 2,914   | 15   | 4,152             |
| Mr. Ho Kin Pong                                | —               | 81  | —   | 4  | 85                |
|  | <u>745</u>      | <u>559</u>                                    | <u>2,914</u>                                  | <u>19</u>  | <u>4,237</u>      |
| <i>For the year ended<br/>31 December 2014</i> |                 |   |   |  |                   |
| <b>Executive directors</b>                     |                 |   |   |  |                   |
| Mr. Ho Kin Wai (chief executive)               | 1,105           | —   | 2,760   | 17   | 3,882             |
| Mr. Ho Kin Pong                                | —               | 435   | —   | 14   | 449               |
|  | <u>1,105</u>    | <u>435</u>                                    | <u>2,760</u>                                  | <u>31</u>  | <u>4,331</u>      |
| <i>For the year ended<br/>31 December 2015</i> |                 |   |   |  |                   |
| <b>Executive directors</b>                     |                 |   |   |  |                   |
| Mr. Ho Kin Wai (chief executive)               | 1,560           | —   | 2,175   | 18   | 3,753             |
| Mr. Ho Kin Pong                                | —               | 445   | —   | 18   | 463               |
|  | <u>1,560</u>    | <u>445</u>                                    | <u>2,175</u>                                  | <u>36</u>  | <u>4,216</u>      |

Mr. Ho Kin Wai is also the chief executive of the Company and his emoluments disclosed above include those for services rendered by him as the chief executive.

Incentive performance bonus was determined with reference to the Group's revenue, operating results, individual performance and comparable market statistics.

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### (b) Employees' emoluments

The five highest paid individuals of the Group include one director of the Company for each of the years ended 31 December 2013, 2014 and 2015. The emoluments of the remaining four individuals for each of the years ended 31 December 2013, 2014 and 2015 are as follows:

|   | Year ended 31 December |              |              |
|---|------------------------|--------------|--------------|
|   | 2013                   | 2014         | 2015         |
|   | HK\$'000               | HK\$'000     | HK\$'000     |
| Salaries and other benefits             | 1,717                  | 1,952        | 2,504        |
| Incentive performance bonus             | —                      | —            | 280          |
| Retirement benefit scheme contributions | 55                     | 64           | 112          |
|   | <u>1,772</u>           | <u>2,016</u> | <u>2,896</u> |

The emoluments of the employees were within the following bands:

|                                | Number of employees<br>As at 31 December |          |          |
|--------------------------------|--|----------|----------|
|                                | 2013                                     | 2014     | 2015     |
| Up to HK\$1,000,000            | 4  | 4        | 3        |
| HK\$1,000,001 to HK\$1,500,000 | —  | —        | 1        |
|                                | <u>4</u>                                 | <u>4</u> | <u>4</u> |

During the Track Record Period, no emoluments were paid by the Group to any of the directors or the chief executive of the Company or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors or the chief executive of the Company waived any emoluments during the Track Record Period.

### 13. DIVIDEND

No dividend has been paid or declared by the Company since its date of incorporation. Prior to the Reorganisation, Ever Smart had declared dividends to its then equity owner as follows:

|                         | Year ended 31 December |               |          |
|-------------------------|------------------------|---------------|----------|
|                         | 2013                   | 2014          | 2015     |
|                         | HK\$'000               | HK\$'000      | HK\$'000 |
| Controlling Shareholder | <u>—</u>               | <u>26,000</u> | <u>—</u> |

The rate of dividend and number of shares ranking for dividend are not presented as such information is not considered meaningful having regard to the purpose of this report.

### 14. EARNINGS PER SHARE

|   | Year ended 31 December |              |              |
|---|------------------------|--------------|--------------|
|   | 2013                   | 2014         | 2015         |
|   | HK\$'000               | HK\$'000     | HK\$'000     |
| Earnings:   |                        |              |              |
| Earnings for the purpose of calculating basic earnings per share (profit for the year attributable to owner of the Company) | <u>10,549</u>          | <u>8,406</u> | <u>6,436</u> |

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|   | Year ended 31 December |                |                |
|---|------------------------|----------------|----------------|
|   | 2013                   | 2014           | 2015           |
|   | '000                   | '000           | '000           |
| Number of shares:   |                        |                |                |
| Number of ordinary shares for the purpose of calculating basic earnings per share | <u>360,000</u>         | <u>360,000</u> | <u>360,000</u> |

The number of ordinary shares for the purpose of basic earnings per share for the years ended 31 December 2013, 2014 and 2015 is determined on the assumption that the capitalisation issue of [REDACTED] shares had been effective on 1 January 2013.

No diluted earnings per share is presented for the Track Record Period as there was no potential ordinary share in issue.

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### 15. PROPERTY, PLANT AND EQUIPMENT

|  | <b>Leasehold<br/>land and<br/>buildings<br/><i>HK\$'000</i></b> | <b>Leasehold<br/>improvement<br/><i>HK\$'000</i></b> | <b>Motor<br/>vehicles<br/><i>HK\$'000</i></b> | <b>Furniture<br/>and office<br/>equipment<br/><i>HK\$'000</i></b> | <b>Total<br/><i>HK\$'000</i></b> |
|--|---|--|---|---|----------------------------------|
| <b>COST</b>  |   |  |   |   |                                  |
| At 1 January 2013                                    | 4,748   | 841  | 2,457   | 404   | 8,450                            |
| Additions  | –   | –  | 729   | –   | 729                              |
| Disposals  | –   | –  | (1,428)                                       | –   | (1,428)                          |
| Exchange realignment                                 | –   | –  | –   | 12  | 12                               |
| At 31 December 2013                                  | 4,748   | 841  | 1,758   | 416   | 7,763                            |
| Additions  | –   | 158  | 2,280   | 121   | 2,559                            |
| Disposals  | –   | –  | (729)   | –   | (729)                            |
| Transfer to investment<br>properties ( <i>note</i> ) | (4,748)   | (143)  | –   | –   | (4,891)                          |
| Exchange realignment                                 | –   | –  | –   | (3)   | (3)                              |
| At 31 December 2014                                  | –   | 856  | 3,309   | 534   | 4,699                            |
| Additions  | –   | 1,051  | –   | 195   | 1,246                            |
| Disposals  | –   | (856)  | –   | (93)  | (949)                            |
| Exchange realignment                                 | –   | (51)   | –   | (24)  | (75)                             |
| At 31 December 2015                                  | –   | 1,000  | 3,309   | 612   | 4,921                            |
| <b>DEPRECIATION</b>                                  |   |  |   |   |                                  |
| At 1 January 2013                                    | 136   | 224  | 1,055   | 48  | 1,463                            |
| Provided for the year                                | 136   | 84   | 352   | 96  | 668                              |
| Eliminated on disposals                              | –   | –  | (717)   | –   | (717)                            |
| Exchange realignment                                 | –   | –  | –   | 2   | 2                                |
| At 31 December 2013                                  | 272   | 308  | 690   | 146   | 1,416                            |
| Provided for the year                                | 34  | 106  | 624   | 106   | 870                              |
| Eliminated on disposals                              | –   | –  | (146)   | –   | (146)                            |
| Transfer to investment<br>properties ( <i>note</i> ) | (306)   | (32)   | –   | –   | (338)                            |
| Exchange realignment                                 | –   | –  | –   | (1)   | (1)                              |
| At 31 December 2014                                  | –   | 382  | 1,168   | 251   | 1,801                            |
| Provided for the year                                | –   | 183  | 590   | 123   | 896                              |
| Eliminated on disposals                              | –   | (433)  | –   | (72)  | (505)                            |
| Exchange realignment                                 | –   | (2)  | –   | (16)  | (18)                             |
| At 31 December 2015                                  | –   | 130  | 1,758   | 286   | 2,174                            |
| <b>CARRYING VALUES</b>                               |   |  |   |   |                                  |
| At 31 December 2013                                  | <u>4,476</u>  | <u>533</u>   | <u>1,068</u>                                  | <u>270</u>  | <u>6,347</u>                     |
| At 31 December 2014                                  | <u>–</u>  | <u>474</u>   | <u>2,141</u>                                  | <u>283</u>  | <u>2,898</u>                     |
| At 31 December 2015                                  | <u>–</u>  | <u>870</u>   | <u>1,551</u>                                  | <u>326</u>  | <u>2,747</u>                     |

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*Note:* During the year ended 31 December 2014, the properties with carrying amount of HK\$4,553,000 were transferred to investment properties due to the change of usage as evidenced by end of owner-occupation and rent out subsequently.

The above items of property, plant and equipment are depreciated on a straight-line basis as follows:

|                                |  |
|--------------------------------|--|
| Leasehold land and buildings   | Over the shorter of the relevant lease of the land or 35 years |
| Leasehold improvement          | Over the shorter of the relevant lease or 5 years              |
| Motor vehicles                 | 20% per annum  |
| Furniture and office equipment | 10-33% per annum   |

As at 31 December 2013, leasehold land and buildings with carrying value of approximately HK\$4,476,000 had been pledged to secure banking facilities granted to the Group. The leasehold land and buildings was transferred to investment properties during the year ended 31 December 2014 and continued to be pledged for securing banking facilities granted to the Group. The carrying value of the investment properties amounted to HK\$5,800,000 as at 31 December 2014. As at 31 December 2014 and 31 December 2015, a motor vehicle with carrying value of approximately HK\$1,862,000 and HK\$1,411,000 respectively had been pledged to secure banking facilities granted to the Group.

An analysis of the carrying value of leasehold land and buildings are as follow:

|              | As at 31 December |          |          |
|--------------|-------------------|----------|----------|
|              | 2013              | 2014     | 2015     |
|              | HK\$'000          | HK\$'000 | HK\$'000 |
| In Hong Kong |                   |          |          |
| Medium lease | 4,476             | –        | –        |

### 16. INVESTMENT PROPERTIES

|   | HK\$'000       |
|---|----------------|
| FAIR VALUE  |                |
| At 1 January 2013 and 31 December 2013                    | –              |
| Transfer from property, plant and equipment at fair value | 5,400          |
| Gain on fair value change recognised in profit or loss    | 400            |
|   | <u>5,800</u>   |
| At 31 December 2014                                       | 5,800          |
| Gain on fair value change recognised in profit or loss    | 400            |
| Disposals   | <u>(6,200)</u> |
| At 31 December 2015                                       | <u>–</u>       |

All of the Group's property interests held under operating lease to earn rentals or for capital appreciation purpose are measured using the fair value model and are reclassified and accounted for as investment properties.

As at 31 December 2014 and the date of transfer, the fair values of the Group's investment properties situated on land in Hong Kong under medium-term lease have been arrived at based on a valuation carried out by LCH (Asia-Pacific) Surveyors Limited, independent qualified professional valuers not connected with the Group. The office of LCH (Asia-Pacific) Surveyors Limited is located on 17th floor, Champion Building, Nos. 287-291, Des Voeux Road, Central, Hong Kong.



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In estimating the fair value of the properties, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation. The management of the Group works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model.

The fair value was determined based on market approach, where the price per square feet of the properties are assessed by reference to market evidence of transaction prices for similar use of properties in the similar locations and conditions in Hong Kong. In estimating the fair value of the properties, the highest and best use of the properties are their current use and they are classified as Level 3 hierarchy.

One of the key inputs used in valuing the investment properties was the price per square feet, which ranged from HK\$8,178 to HK\$8,463. An increase in the price per square feet used would result in a same percentage increase in fair value measurement of the respective investment property, and vice versa.

As at 31 December 2014, the Group’s investment properties had been pledged to secure banking facilities granted to the Group. The Group had pledged the same properties which were classified as property, plant and equipment as at 31 December 2013 with carrying value of approximately HK\$4,476,000 to secure banking facilities granted to the Group.

During the year ended 31 December 2015, the Group disposed of the investment properties to independent third parties at a cash consideration of HK\$6,200,000.

### 17. INVESTMENT IN A SUBSIDIARY

|                                 | <b>As at<br/>31 December<br/>2015<br/>HK\$’000</b> |
|---------------------------------|--|
| Unlisted shares, at deemed cost | <u>8,497</u>                                       |

### 18. TRADE AND BILLS RECEIVABLES, OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS

|   | <b>As at 31 December</b> |                 |                 |
|---|--------------------------|-----------------|-----------------|
|   | <b>2013</b>              | <b>2014</b>     | <b>2015</b>     |
|   | <i>HK\$’000</i>          | <i>HK\$’000</i> | <i>HK\$’000</i> |
| Trade and bills receivables                           | 25,700                   | 35,653          | 47,086          |
| Trade receivables discounted with recourse            | <u>—</u>                 | <u>—</u>        | <u>8,721</u>    |
|   | <u>25,700</u>            | <u>35,653</u>   | <u>55,807</u>   |
| Value-added tax recoverable                           | 4,236                    | 176             | —               |
| Prepayments and deferred expenses                     | 1,501                    | 453             | 2,201           |
| Advance to a director of a subsidiary ( <i>note</i> ) | 5,838                    | 5,830           | —               |
| Others  | <u>271</u>               | <u>517</u>      | <u>87</u>       |
|   | <u>11,846</u>            | <u>6,976</u>    | <u>2,288</u>    |

*Note:* The amount was unsecured, non-interest bearing and fully settled during the year ended 31 December 2015.

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The Group allows credit period ranging from 7 days to 90 days to customers. The following is an ageing analysis of trade and bills receivables presented based on the invoice date at the end of the reporting period, which approximate the revenue recognition dates:

|               | As at 31 December |               |               |
|---------------|-------------------|---------------|---------------|
|               | 2013              | 2014          | 2015          |
|               | HK\$'000          | HK\$'000      | HK\$'000      |
| 0 to 30 days  | 20,692            | 20,042        | 29,014        |
| 31 to 60 days | 4,479             | 13,103        | 23,661        |
| 61 to 90 days | 267               | 2,508         | 2,624         |
| Over 90 days  | 262               | —             | 508           |
|               | <u>25,700</u>     | <u>35,653</u> | <u>55,807</u> |

Before accepting any new customer, the Group assess the potential customer’s credit quality and defines credit limits by customer. Credit limits attributed to customers and credit term granted to customers are reviewed regularly. The majority of the trade receivables that are neither past due nor impaired have no history of defaulting on repayments.

Included in the Group’s trade receivables balance are debtors with aggregate carrying amount of approximately HK\$7,960,000, HK\$3,222,000 and HK\$3,130,000 as at 31 December 2013, 31 December 2014 and 31 December 2015, respectively which were past due at the end of the reporting period for which the Group has not provided for impairment loss as the Group considered such balances could be recovered based on historical experience. The Group does not hold any collateral over these balances.

The following is an aged analysis of trade receivables which are past due but not impaired at the end of the reporting period:

|               | As at 31 December |              |              |
|---------------|-------------------|--------------|--------------|
|               | 2013              | 2014         | 2015         |
|               | HK\$'000          | HK\$'000     | HK\$'000     |
| Overdue by:   |                   |              |              |
| 1 to 30 days  | 7,543             | 1,358        | 2,624        |
| 31 to 60 days | 417               | 1,864        | 219          |
| Over 60 days  | —                 | —            | 287          |
|               | <u>7,960</u>      | <u>3,222</u> | <u>3,130</u> |

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### Transfer of financial assets

The followings were the Group’s financial assets as at 31 December 2015 that were transferred to a bank by discounting those receivables on a recourse basis. As the Group has not transferred the significant risks and rewards relating to these receivables, it continues to recognise the full carrying amount of the receivables and has recognised the cash received on the transfer as a secured borrowing (see note 22). These financial assets are carried at amortised cost in the Group’s consolidated statement of financial position.

|   | Trade<br>receivables<br>discounted<br>to a bank<br>with<br>recourse<br>HK\$’000 | Total<br>HK\$’000 |
|---|---|-------------------|
| Carrying amount of transferred assets     | 8,721   | 8,721             |
| Carrying amount of associated liabilities | (7,849)   | (7,849)           |
| Net position                              | <u>872</u>  | <u>872</u>        |

There were no transfer of financial assets during the years ended 31 December 2013 and 31 December 2014.

### 19. AMOUNT(S) DUE FROM (TO) RELATED PARTIES/A DIRECTOR

|                            | NOTES | As at 31 December |                  |                  |
|----------------------------|-------|-------------------|------------------|------------------|
|                            |       | 2013<br>HK\$’000  | 2014<br>HK\$’000 | 2015<br>HK\$’000 |
| <b>Amount(s) due from:</b> |       |                   |                  |                  |
| A director                 | (i)   | 16,264            | 17,141           | 21,266           |
| Related parties            | (ii)  | <u>11,413</u>     | <u>–</u>         | <u>–</u>         |
|                            |       | <u>27,677</u>     | <u>17,141</u>    | <u>21,266</u>    |
| <b>Amount due to:</b>      |       |                   |                  |                  |
| A director                 | (iii) | –                 | –                | (109)            |
| A related party            | (iv)  | <u>(910)</u>      | <u>–</u>         | <u>–</u>         |
|                            |       | <u>(910)</u>      | <u>–</u>         | <u>(109)</u>     |

(i) Details of amount due from a director are as follows:

| Name of director | As at<br>1 January<br>2013<br>HK\$’000 | As at 31 December |                  |                  | Maximum amount<br>outstanding during<br>Year ended<br>31 December |                  |                  |
|------------------|--|-------------------|------------------|------------------|---|------------------|------------------|
|                  |  | 2013<br>HK\$’000  | 2014<br>HK\$’000 | 2015<br>HK\$’000 | 2013<br>HK\$’000  | 2014<br>HK\$’000 | 2015<br>HK\$’000 |
| Mr. Ho Kin Wai   | <u>2,465</u>                           | <u>16,264</u>     | <u>17,141</u>    | <u>21,266</u>    | <u>16,264</u>   | <u>38,829</u>    | <u>21,668</u>    |

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The amount due from a director is non-trade in nature, unsecured, non-interest bearing and repayable on demand. As represented by the directors of the Company, the amount is expected to be settled in full upon [REDACTED] of the Company’s shares on the GEM of the Stock Exchange.

- (ii) Details of the amounts due from related parties are as follows:

| Name of related party   | Relationship   | As at        | As at 31 December |          |          | Maximum amount outstanding during |          |          |
|---|--|--------------|-------------------|----------|----------|-----------------------------------|----------|----------|
|   |  | 1 January    | 2013              | 2014     | 2015     | Year ended 31 December            |          |          |
|   |  | 2013         | 2013              | 2014     | 2015     | 2013                              | 2014     | 2015     |
|   |  | HK\$’000     | HK\$’000          | HK\$’000 | HK\$’000 | HK\$’000                          | HK\$’000 | HK\$’000 |
| Mr. Ho Kwok Choi  | Father of the Controlling Shareholder                                      | 1,749        | 8,972             | –        | –        | 8,972                             | 11,049   | –        |
| King Step Investment Capital Limited                              | A subsidiary of Ever Sound   | 27           | 960               | –        | –        | 960                               | 969      | –        |
| Ever App Limited  | A subsidiary of Ever Sound   | –            | 732               | –        | –        | 732                               | 9,565    | –        |
| Skynice Trading Limited (“Skynice”)                               | A company owned by Mr. Ho Kwok Choi, father of the Controlling Shareholder | –            | 749               | –        | –        | 749                               | 1,457    | –        |
| Alliance Footwear International Pty Limited (“Alliance Footwear”) | A company owned by a former director of Alliance (note)                    | 1,039        | –                 | –        | –        | 1,039                             | –        | –        |
|   |  | <u>2,815</u> | <u>11,413</u>     | <u>–</u> | <u>–</u> |                                   |          |          |

*Note:* The former director was also the non-controlling shareholder of Alliance during the year ended 31 December 2013.

The amounts due from related parties were denominated in HK\$, non-trade in nature, unsecured, interest-free and fully settled prior to 31 December 2014.

- (iii) Details of the amount due to a director are as follows:

| Name of director | As at 31 December |          |              |
|------------------|-------------------|----------|--------------|
|                  | 2013              | 2014     | 2015         |
|                  | HK\$’000          | HK\$’000 | HK\$’000     |
| Mr. Ho Kin Wai   | <u>–</u>          | <u>–</u> | <u>(109)</u> |

The amount due to a director is unsecured, non-interest bearing and repayable on demand. As represented by the directors of the Company, the amount is expected to be settled in full upon [REDACTED] of the Company’s shares on the GEM of the Stock Exchange.

- (iv) Details of the amount due to a related party are as follows:

| Name of related party | Relationship   | As at 31 December |          |          |
|-----------------------|--|-------------------|----------|----------|
|                       |  | 2013              | 2014     | 2015     |
|                       |  | HK\$’000          | HK\$’000 | HK\$’000 |
| Ever Sound            | A company owned by Mr. Ho Kin Wai, the Controlling Shareholder | <u>(910)</u>      | <u>–</u> | <u>–</u> |

The amount due to a related party was denominated in HK\$, non-trade nature, unsecured, interest-free and fully settled prior to 31 December 2014.

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### 20. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH

#### Pledged bank deposits

Pledged bank deposits of the Group have been pledged to secure short-term banking facilities granted to the Group.

The pledged bank deposits carry interest at prevailing market rates which range from 0.01% to 0.1% per annum as at 31 December 2013, 31 December 2014 and 31 December 2015.

#### Bank balances and cash

Bank balances carry interest at prevailing market rates which range from 0.01% to 0.35% per annum as at 31 December 2013, 31 December 2014 and 31 December 2015.

Pledged bank deposits and bank balances and cash denominated in currencies other than the functional currency of the relevant group entities are set out below:

|                  | As at 31 December |          |          |
|------------------|-------------------|----------|----------|
|                  | 2013              | 2014     | 2015     |
|                  | HK\$'000          | HK\$'000 | HK\$'000 |
| HK\$             | 2,227             | 2,401    | 3,392    |
| Renminbi (“RMB”) | 107               | 22       | –        |

### 21. TRADE AND OTHER PAYABLES

|  | As at 31 December |          |          |
|--|-------------------|----------|----------|
|  | 2013              | 2014     | 2015     |
|  | HK\$'000          | HK\$'000 | HK\$'000 |
| Trade payables                           | 19,185            | 21,394   | 39,446   |
| Receipt in advance from customers        | 6,463             | 2,329    | 313      |
| Accrued staff salaries                   | 2,477             | 4,094    | 4,030    |
| Accrued expenses                         | 401               | 720      | 847      |
| Other tax payables                       | 109               | 153      | 66       |
| Amount due to a director of a subsidiary | 5,838             | 5,830    | –        |
| Others                                   | 240               | 743      | 874      |
|  | 34,713            | 35,263   | 45,576   |

The credit period on purchase of goods varies from 20 days to 45 days. The ageing analysis of the trade payables presented based on the invoice dates at the end of each reporting period is as follows:

|               | As at 31 December |          |          |
|---------------|-------------------|----------|----------|
|               | 2013              | 2014     | 2015     |
|               | HK\$'000          | HK\$'000 | HK\$'000 |
| 0-30 days     | 15,712            | 15,400   | 25,368   |
| 31-60 days    | 2,736             | 5,712    | 11,130   |
| 61 to 90 days | 151               | 81       | 2,868    |
| Over 90 days  | 586               | 201      | 80       |
|               | 19,185            | 21,394   | 39,446   |

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Trade and other payables denominated in currencies other than the functional currency of the relevant group entities are set out below.

|     | As at 31 December |          |          |
|-----|-------------------|----------|----------|
|     | 2013              | 2014     | 2015     |
|     | HK\$'000          | HK\$'000 | HK\$'000 |
| RMB | 98                | –        | –        |

### 22. BANK BORROWINGS/BANK OVERDRAFTS

|                         | As at 31 December |          |          |
|-------------------------|-------------------|----------|----------|
|                         | 2013              | 2014     | 2015     |
|                         | HK\$'000          | HK\$'000 | HK\$'000 |
| <b>Bank borrowings</b>  |                   |          |          |
| Secured bank borrowings |                   |          |          |
| – Variable rate         | 11,093            | 11,397   | 20,077   |
| – Fixed rate            | 2,085             | 16,204   | 8,134    |
|                         | 13,178            | 27,601   | 28,211   |

|   | As at 31 December |          |          |
|---|-------------------|----------|----------|
|   | 2013              | 2014     | 2015     |
|   | HK\$'000          | HK\$'000 | HK\$'000 |
| Carrying amount of bank borrowings based on scheduled repayment dates set out in the loan agreements:   |                   |          |          |
| Within one year   | –                 | 320      | 308      |
| More than one year, but not exceeding two years   | –                 | 320      | 308      |
| More than two years, but not more than five years   | –                 | 693      | 153      |
|   | –                 | 1,333    | 769      |
| Carrying amount of bank borrowings that contain a repayment on demand clause (shown under current liabilities) with scheduled repayment dates set out in the loan agreements: |                   |          |          |
| Within one year   | –                 | –        | 27,442   |
| More than one year, but not exceeding two years   | 13,178            | 26,268   | –        |
|   | 13,178            | 27,601   | 28,211   |
| Less: Amount shown under current liabilities  | (13,178)          | (26,588) | (27,750) |
|   | –                 | 1,013    | 461      |

The fixed rate bank borrowings as at 31 December 2013, 2014 and 2015 carry interests ranging from 2.5% to 5.5% per annum.

The variable rate bank borrowings as at 31 December 2013, 2014 and 2015 carry interests at a premium over Hong Kong Interbank Offered Rate. The ranges of effective interest rates on bank borrowings are 2.25%, 2.25% to 3.04% and 2.25% to 3.04%, per annum, respectively.

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Bank borrowings denominated in currencies other than the functional currencies of the relevant group entities are set out below:

|      | As at 31 December |          |          |
|------|-------------------|----------|----------|
|      | 2013              | 2014     | 2015     |
|      | HK\$'000          | HK\$'000 | HK\$'000 |
| HK\$ | 2,085             | 7,330    | 2,030    |

The bank borrowings as at 31 December 2013, 2014 and 2015 were secured by:

- pledged bank deposits of HK\$1,005,000, HK\$1,129,000 and HK\$2,134,000, respectively.
- unlimited guarantees from the Controlling Shareholder, father and mother of the Controlling Shareholder (without charging any guarantee fee).
- legal charge over a property owned by the Controlling Shareholder and father of the Controlling Shareholder.
- trade receivables of approximately nil, nil and HK\$8,721,000, respectively.
- a motor vehicle with carrying value of approximately nil, HK\$1,862,000 and HK\$1,411,000, respectively.
- leasehold land and buildings with carrying value of approximately HK\$4,476,000 as at 31 December 2013. The leasehold land and buildings was transferred to investment properties during the year ended 31 December 2014 and continued to be pledged for securing banking facilities granted to the Group. The carrying value of the investment properties amounted to HK\$5,800,000 as at 31 December 2014.

### Bank overdrafts

Bank overdrafts at 31 December 2014 carry interest at fixed rate at 5.25% per annum and repayable on demand.

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### 23. DEFERRED TAX LIABILITY

The following is the deferred tax liability recognised and movements thereon during the Track Record Period:

|  | <b>Accelerated<br/>tax<br/>depreciation<br/>HK\$'000</b> |
|--|--|
| At 1 January 2013  | 217  |
| Charge to profit or loss   | <u>8</u>   |
| At 31 December 2013  | 225  |
| Charge to profit or loss   | 146  |
| Reversal of previously recognised deferred tax of properties upon transfer<br>to investment properties | <u>(3)</u>   |
| At 31 December 2014  | 368  |
| Credit to profit or loss   | <u>(342)</u>   |
| At 31 December 2015  | <u><u>26</u></u>   |

As at 31 December 2013, 2014 and 2015, the Group had unused tax losses of approximately HK\$88,000, HK\$385,000 and nil, respectively. No deferred tax asset has been recognised in respect of the unused tax losses due to the unpredictability of future profit streams and the unused tax losses may be carried forward indefinitely.

### 24. SHARE CAPITAL

The share capital of the Group as at 1 January 2013, 31 December 2013 and 2014 represents the combined issued and fully paid share capital of Ever Smart, D&S and Alliance, taking into account the respective dates of incorporation. As at 31 December 2015, the share capital represents the issued and fully paid share capital of the Company. Details of movements of share capital of the Company are as follows:

|   | <b>Number of<br/>shares</b> | <b>Share<br/>capital<br/>HK\$'000</b> |
|---|-----------------------------|---------------------------------------|
| <i>Ordinary shares of HK\$0.01 each</i>                         |                             |                                       |
| Authorised:   |                             |                                       |
| At 6 February 2015 (date of incorporation) and 31 December 2015 | <u>38,000,000</u>           | <u>380</u>                            |
| Issued and fully paid:  |                             |                                       |
| At 6 February 2015 (date of incorporation)                      | 1                           | –                                     |
| Reorganisation  | <u>999</u>                  | <u>–</u>                              |
| At 31 December 2015   | <u><u>1,000</u></u>         | <u><u>–</u></u>                       |

On 6 February 2015, 1 share of the Company of HK\$0.01 each was allotted and issued to the subscriber, which was then transferred to the Controlling Shareholder, Mr. Ho Kin Wai. On 20 August 2015, Mr. Ho Kin Wai transferred his one fully paid subscriber share in the Company to Asia Matrix, and the Company issued and allotted 999 shares of HK\$0.01 each, credited as fully paid, to Asia Matrix.



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### 25. RESERVES OF THE COMPANY

The movements in the reserves of the Company are as follows:

|   | <b>Special<br/>reserve</b><br><i>HK\$'000</i> | <b>Accumulated<br/>losses</b><br><i>HK\$'000</i> | <b>Total equity</b><br><i>HK\$'000</i> |
|---|---|--|--|
| At 6 February 2015 (date of incorporation)    | –   | –  | –                                      |
| Loss for the period                           | –   | (5,970)  | (5,970)                                |
| Reorganisation                                | 8,497   | –  | 8,497                                  |
| Deemed contribution from the sole shareholder | 3,043   | –  | 3,043                                  |
|   | <u>11,540</u>                                 | <u>(5,970)</u>                                   | <u>5,570</u>                           |
| At 31 December 2015                           | <u>11,540</u>                                 | <u>(5,970)</u>                                   | <u>5,570</u>                           |

### 26. OPERATING LEASES

#### (a) The Group as lessor

At the end of each reporting period, the Group had contracted with a tenant for the following future minimum lease payments under non-cancellable operating lease, which fall due as follows:

|  | <b>As at 31 December</b>       |                                |                                |
|--|--------------------------------|--------------------------------|--------------------------------|
|  | <b>2013</b><br><i>HK\$'000</i> | <b>2014</b><br><i>HK\$'000</i> | <b>2015</b><br><i>HK\$'000</i> |
| Within one year                        | –                              | 264                            | –                              |
| In the second to fifth years inclusive | –                              | 88                             | –                              |
|  | <u>–</u>                       | <u>352</u>                     | <u>–</u>                       |

As at 31 December 2014, the operating lease held has committed a tenant for the next two years.

#### (b) The Group as lessee

At the end of each reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

|  | <b>As at 31 December</b>       |                                |                                |
|--|--------------------------------|--------------------------------|--------------------------------|
|  | <b>2013</b><br><i>HK\$'000</i> | <b>2014</b><br><i>HK\$'000</i> | <b>2015</b><br><i>HK\$'000</i> |
| Within one year                        | 709                            | 675                            | 1,170                          |
| In the second to fifth years inclusive | 1,926                          | 128                            | 2,066                          |
|  | <u>2,635</u>                   | <u>803</u>                     | <u>3,236</u>                   |

Operating lease payments represent rentals payable by the Group for certain of its office premises. Leases are negotiated for one to five years and rentals are fixed over the respective leases.

### 27. RETIREMENT BENEFIT SCHEMES

For employees of the Group in Hong Kong, the Group participates in a defined contribution scheme which is registered under the Mandatory Provident Fund Scheme (the “MPF Scheme”) established under the Mandatory Provident Fund Ordinance in December 2000. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees.

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For members of the MPF Scheme, the Group contributes the lower of HK\$1,250 (before June 2014) or HK\$1,500 (after June 2014) or 5% of relevant payroll costs per person to the MPF Scheme, which contribution is matched by the employees.

The employees of the Group in the PRC are members of the state-managed retirement benefit schemes operated by the PRC government. The Company’s subsidiary is required to contribute a specified percentage of payroll costs to the retirement benefit schemes to fund the benefits.

The only obligation of the Group with respect to these retirement benefits schemes is to make the specified contributions. During the Track Record Period, the total amounts contributed by the Group to the schemes and costs charged to the profit or loss represents contributions paid or payable to the schemes by the Group at rates specified in the rules of the schemes. The retirement benefits scheme contributions made by the Group amounted to HK\$992,000, HK\$1,384,000, and HK\$1,314,000 for the years ended 31 December 2013, 2014 and 2015, respectively.

### 28. RELATED PARTY DISCLOSURES

#### (a) Related party balances

Details of the outstanding balances with related parties are set out in the consolidated statements of financial position and in note 19.

#### (b) Related party transactions

During the Track Record Period, the Group entered into the following transactions with related parties:

| Name of related party | Nature of transactions | Year ended 31 December |                   |                   |
|-----------------------|------------------------|------------------------|-------------------|-------------------|
|                       |                        | 2013                   | 2014              | 2015              |
|                       |                        | HK\$'000               | HK\$'000          | HK\$'000          |
| Mr. Ho Kin Wai        | Commission expense     | 2,914                  | 2,460             | 1,875             |
| Skynice               | Commission expense     | 1,457                  | –                 | –                 |
| Alliance Footwear     | Commission expense     | 687                    | –                 | –                 |
|                       |                        | <u>          </u>      | <u>          </u> | <u>          </u> |

#### (c) Compensation of the directors and key management personnel

|   | Year ended 31 December |                   |                   |
|---|------------------------|-------------------|-------------------|
|   | 2013                   | 2014              | 2015              |
|   | HK\$'000               | HK\$'000          | HK\$'000          |
| Salaries and other allowances           | 2,282                  | 2,539             | 4,141             |
| Incentive performance bonus             | 2,914                  | 2,760             | 2,175             |
| Retirement benefit scheme contributions | 49                     | 65                | 75                |
|   | <u>          </u>      | <u>          </u> | <u>          </u> |
| Total                                   | <u>5,245</u>           | <u>5,364</u>      | <u>6,391</u>      |

The remuneration of the directors and key management personnel are determined having regard to the performance of the individuals.

#### (d) Guarantee and pledge of assets

Details of the guarantee and pledge of assets from the Controlling Shareholder and the father and mother of the Controlling Shareholder are set out in note 22.

(e) During the year ended 31 December 2013, the Group wrote off the amount due from a company owned by a former director of a subsidiary of approximately HK\$1,250,000 and wrote off the amount due from a former director of a subsidiary of approximately HK\$387,000.

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### 29. PLEDGE OF ASSETS

At the end of each reporting period, the following assets were pledged to banks to secure the banking facilities:

|                               | As at 31 December |              |              |
|-------------------------------|-------------------|--------------|--------------|
|                               | 2013              | 2014         | 2015         |
|                               | HK\$'000          | HK\$'000     | HK\$'000     |
| Investment properties         | –                 | 5,800        | –            |
| Property, plant and equipment | 4,476             | 1,862        | 1,411        |
| Pledged bank deposits         | 1,005             | 1,129        | 2,134        |
|                               | <u>5,481</u>      | <u>8,791</u> | <u>3,545</u> |

As at 31 December 2013, 31 December 2014 and 31 December 2015, trade receivables discounted with recourse amounted to nil, nil and HK\$8,721,000, respectively.

### 30. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that the group companies will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The overall strategy remains unchanged throughout the Track Record Period.

The capital structure of the Group consists of net debt, which includes bank borrowings disclosed in note 22 and amount due to a related party, net of cash and cash equivalents and equity attributable to owner of the Company, comprising issued share capital, retained profits and other reserve.

The management of the Group reviews the capital structure regularly. As part of this review, the directors of the Company consider the cost and the risks associates with each class of the capital. Based on the recommendations of the directors, the Group will balance its overall capital structure through issue of new debt and redemption of existing debts.

### 31. FINANCIAL INSTRUMENTS

#### (a) Categories of financial instruments

|   | As at 31 December |               |               |
|---|-------------------|---------------|---------------|
|   | 2013              | 2014          | 2015          |
|   | HK\$'000          | HK\$'000      | HK\$'000      |
| <b>Financial assets</b>                                     |                   |               |               |
| Loans and receivables (including cash and cash equivalents) | <u>64,441</u>     | <u>66,562</u> | <u>84,717</u> |
| <b>Financial liabilities</b>                                |                   |               |               |
| Amortised cost  | <u>39,228</u>     | <u>59,153</u> | <u>67,976</u> |

#### (b) Financial risk management objectives and policies

The Group’s major financial instruments include trade and bills receivables, other receivables, amount(s) due from (to) related parties/a director, pledged bank deposits, bank balances and cash, trade and other payables, bank borrowings and bank overdrafts.

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Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include market risks (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

### **Market risk**

#### **(i) Currency risk**

Certain bank balances, trade and bills receivables, other receivable, trade and other payables, amount(s) due from (to) related parties/a director, pledged bank deposits, bank borrowings and bank overdrafts of the Group are denominated in foreign currency of the respective group entities which are exposed to foreign currency risk.

The Group currently does not have a foreign currency hedging policy. However, management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

The carrying amounts of the Group’s foreign currency denominated monetary assets and liabilities at the end of each reporting period are as follows:

|                    | <b>At 31 December</b> |                 |                 |
|--------------------|-----------------------|-----------------|-----------------|
|                    | <b>2013</b>           | <b>2014</b>     | <b>2015</b>     |
|                    | <i>HK\$'000</i>       | <i>HK\$'000</i> | <i>HK\$'000</i> |
| <b>Assets</b>      |                       |                 |                 |
| HK\$               | 35,742                | 25,480          | 24,657          |
| RMB                | <u>1,320</u>          | <u>2,606</u>    | <u>678</u>      |
| <b>Liabilities</b> |                       |                 |                 |
| HK\$               | 3,113                 | 11,530          | 2,178           |
| RMB                | <u>5,936</u>          | <u>5,959</u>    | <u>79</u>       |

#### **Sensitivity analysis**

The Group exposes foreign currency risk on fluctuation of RMB and HK\$ during the Track Record Period.

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The following table details the Group’s sensitivity to a 1% increase or decrease for the years ended 31 December 2013 and 2014 and 6% increase or decrease for the year ended 31 December 2015 in the exchange rate of RMB against US\$. The percentage is the sensitivity rate used which represents management’s assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis does not include outstanding relevant monetary items denominated in HK\$ as the management of the Group considers that the Group’s exposure to HK\$ is insignificant on the ground that HK\$ is pegged to US\$. The sensitivity analysis adjusts their translation at the year end for a 1% change for the years ended 31 December 2013 and 2014 and 6% change for the year ended 31 December 2015 in foreign currency rates. A negative/positive number below indicates a decrease/increase in post-tax profit where RMB strengthen 1% for the years ended 31 December 2013 and 2014 and strengthen 6% for the year ended 31 December 2015 against US\$. For a 1% weakening for the years ended 31 December 2013 and 2014 and 6% weakening for the year ended 31 December 2015 of RMB against US\$, there would be an equal and opposite impact on the post-tax profit.

|     | Year ended 31 December |          |          |
|-----|------------------------|----------|----------|
|     | 2013                   | 2014     | 2015     |
|     | HK\$'000               | HK\$'000 | HK\$'000 |
| RMB | (39)                   | (28)     | 31       |

In management’s opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the Track Record Period.

### (ii) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate bank borrowings and bank overdrafts. The Group currently does not have an interest rate hedging policy.

The Group is also exposed to cash flow interest rate risk in relation to floating-rate bank balances and bank borrowings at variable interest rates.

The Group’s exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The Group’s cash flow interest rate risk is mainly concentrated on the fluctuations of the Hong Kong Interbank Offered Rate.

### Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to bank interest rates. The analysis is prepared assuming the interest-bearing bank borrowings outstanding at the end of each reporting period were outstanding for the whole year. A 100 basis points increase or decrease is used and represent management’s assessment of the reasonably possible change in interest rates for the years ended 31 December 2013, 2014 and 2015.

If interest rates on floating-rate interest-bearing bank borrowings had been 100 basis points higher/lower and all other variables were held constant, the Group’s post tax profit for the years ended 31 December 2013, 2014 and 2015 would decrease/increase by HK\$93,000, HK\$95,000 and HK\$168,000, respectively.

For the floating-rate interest-bearing bank balances, based on the sensitivity analysis, the management of the Group considers that the impact on profit or loss from changes in interest rates for the years ended 31 December 2013, 2014 and 2015 is insignificant.

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### *Credit risk*

The Group’s maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statements of financial position of the Group.

The Group’s credit risk is primarily attributable to its trade and bills receivables and amount(s) due from related parties/a director. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the management of the Group considers that the Group’s credit risk is significantly reduced.

The credit risk on pledged bank deposits and bank balances is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

As at 31 December 2013, 2014 and 2015, the Group has concentration of credit risk as 27%, 26% and 45% respectively of the total trade receivables was due from the Group’s largest customer. The Group’s concentration of credit risk on the top five largest customers accounted for 78%, 87% and 91% of the total trade receivables as at 31 December 2013, 2014 and 2015, respectively. The management of the Group considered that the credit risk of amounts due from these customers is insignificant after considering their historical settlement record, credit quality and financial positions.

In addition, the Group has concentration of credit risk on amount due from a director as at 31 December 2013, 2014 and 2015, and one of the related parties as at 31 December 2013 with details set out in note 19. In the opinion of the management of the Group, the amount due from a director is expected to be settled in full upon [REDACTED] of the Company’s shares on the GEM of the Stock Exchange.

### *Liquidity risk*

In management of the liquidity risk, the Group monitors and maintains levels of cash and cash equivalents deemed adequate by the management to finance the Group’s operations and mitigate the effects of fluctuations in cash flows.

The following table details the Group’s remaining contractual maturity for its financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date, on which the Group can be required to pay. Specifically, bank loans with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity dates for other financial liabilities are based on the agreed repayment dates. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate at the end of the reporting period.

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### Liquidity tables

As at 31 December 2013

|   | Weighted<br>average<br>effective<br>interest<br>rate<br>% | Repayable<br>on demand<br>or less than<br>1 month<br>HK\$'000 | 1 – 3<br>months<br>HK\$'000 | 4 months to<br>1 year<br>HK\$'000 | 1 – 5 years<br>HK\$'000 | Total<br>undiscounted<br>cash flows<br>HK\$'000 | Carrying<br>amount at<br>31<br>December<br>2013<br>HK\$'000 |
|---|---|---|-----------------------------|-----------------------------------|-------------------------|---|---|
| <b>Non-derivative financial liabilities</b> |   |   |                             |                                   |                         |   |   |
| Trade and other payables                    | N/A   | 25,140  | –                           | –                                 | –                       | 25,140  | 25,140  |
| Amount due to a related party               | N/A   | 910   | –                           | –                                 | –                       | 910   | 910   |
| Bank borrowings                             |   |   |                             |                                   |                         |   |   |
| – fixed rate                                | 2.50  | 2,085   | –                           | –                                 | –                       | 2,085   | 2,085   |
| – variable rate                             | 2.25  | 11,093  | –                           | –                                 | –                       | 11,093  | 11,093  |
|   |   | <u>39,228</u>   | <u>–</u>                    | <u>–</u>                          | <u>–</u>                | <u>39,228</u>                                   | <u>39,228</u>   |

As at 31 December 2014

|   | Weighted<br>average<br>effective<br>interest<br>rate<br>% | Repayable<br>on demand<br>or less than<br>1 month<br>HK\$'000 | 1 – 3<br>months<br>HK\$'000 | 4 months to<br>1 year<br>HK\$'000 | 1 – 5 years<br>HK\$'000 | Total<br>undiscounted<br>cash flows<br>HK\$'000 | Carrying<br>amount at<br>31<br>December<br>2014<br>HK\$'000 |
|---|---|---|-----------------------------|-----------------------------------|-------------------------|---|---|
| <b>Non-derivative financial liabilities</b> |   |   |                             |                                   |                         |   |   |
| Trade and other payables                    | N/A   | 27,609  | –                           | –                                 | –                       | 27,609  | 27,609  |
| Bank borrowings                             |   |   |                             |                                   |                         |   |   |
| – fixed rate                                | 4.97  | 14,902  | 94                          | 251                               | 1,191                   | 16,438  | 16,204  |
| – variable rate                             | 2.53  | 11,397  | –                           | –                                 | –                       | 11,397  | 11,397  |
| Bank overdrafts                             | 5.25  | 3,943   | –                           | –                                 | –                       | 3,943   | 3,943   |
|   |   | <u>57,851</u>   | <u>94</u>                   | <u>251</u>                        | <u>1,191</u>            | <u>59,387</u>                                   | <u>59,153</u>   |

As at 31 December 2015

|   | Weighted<br>average<br>effective<br>interest<br>rate<br>% | Repayable<br>on demand<br>or less than<br>1 month<br>HK\$'000 | 1 – 3<br>months<br>HK\$'000 | 4 months to<br>1 year<br>HK\$'000 | 1 – 5 years<br>HK\$'000 | Total<br>undiscounted<br>cash flows<br>HK\$'000 | Carrying<br>amount at<br>31<br>December<br>2015<br>HK\$'000 |
|---|---|---|-----------------------------|-----------------------------------|-------------------------|---|---|
| <b>Non-derivative financial liabilities</b> |   |   |                             |                                   |                         |   |   |
| Trade and other payables                    | N/A   | 39,656  | –                           | –                                 | –                       | 39,656  | 39,656  |
| Amount due to a director                    | N/A   | 109   | –                           | –                                 | –                       | 109   | 109   |
| Bank borrowings                             |   |   |                             |                                   |                         |   |   |
| – fixed rate                                | 4.92  | 7,397   | 94                          | 251                               | 564                     | 8,306   | 8,134   |
| – variable rate                             | 2.52  | 20,077  | –                           | –                                 | –                       | 20,077  | 20,077  |
|   |   | <u>67,239</u>   | <u>94</u>                   | <u>251</u>                        | <u>564</u>              | <u>68,148</u>                                   | <u>67,976</u>   |

## APPENDIX I

## ACCOUNTANTS’ REPORT

Bank borrowings with a repayment on demand clause are included in the “repayable on demand or less than 1 month” time band in the above maturity analysis. As at 31 December 2013, 2014 and 2015, the aggregate carrying amounts of these bank borrowings amounted to approximately HK\$13,178,000, HK\$26,268,000 and HK\$27,442,000 respectively. Taking into account of the Group’s financial position, the management of the Group does not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The management of the Group believes that such bank borrowings will be repaid in accordance with the scheduled repayment dates set out in the loan agreements. At that time, the aggregate principal and interest cash outflows are set out below:

|                  | Less than<br>1 month<br><i>HK\$’000</i> | 1 – 3<br>months<br><i>HK\$’000</i> | 4 months to<br>1 year<br><i>HK\$’000</i> | 1 – 5 years<br><i>HK\$’000</i> | Total<br>undiscounted<br>cash flows<br><i>HK\$’000</i> | Carrying<br>amount<br><i>HK\$’000</i> |
|------------------|---|------------------------------------|--|--------------------------------|--|---------------------------------------|
| 31 December 2013 | 26                                      | 75                                 | 303                                      | 13,190                         | 13,594   | 13,178                                |
| 31 December 2014 | 83                                      | 260                                | 1,029                                    | 26,605                         | 27,977   | 26,268                                |
| 31 December 2015 | 246                                     | 26,078                             | 1,376                                    | –                              | 27,700   | 27,442                                |

The amounts included above for variable rate instruments for non-derivative financial liabilities are subject to change if changes in variable rates differ to those estimates of interest rates determined at the end of the reporting period.

### 32. MAJOR NON-CASH TRANSACTIONS

During the year ended 31 December 2014, the Group had entered into the following major non-cash transactions with a director, Mr. Ho Kin Wai, and certain related parties as disclosed in note 19, through a debt restructuring arrangement:

- Ever Smart had declared dividends of HK\$26,000,000 to Ever Sound, the then holding company before the completion of the Reorganisation, which was not paid and recorded in amount due to a related party. At the date of debt restructuring, the remaining balance of amount due to a related party amounting to HK\$22,347,000 was net off with the item of amount due from a director.
- the remaining unsettled amounts due from related parties of HK\$20,976,000 in aggregate at the date of debt restructuring had been transferred to amount due from a director.

During the year ended 31 December 2015, certain trade receivables were discounted with recourse to a bank. Accordingly, the bank directly received the contractually entitled cash flows of HK\$9,267,000 upon settlement of the discounted trade receivables from the Group’s debtor as settlement of the related bank borrowings granted to the Group.

### B. DIRECTORS’ REMUNERATION

Save as disclosed herein, no remuneration has been paid or payable by the Group to the directors of the Company during the Track Record Period.



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**APPENDIX I**

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**ACCOUNTANTS’ REPORT**

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**C. SUBSEQUENT EVENTS**

The following events took place subsequent to 31 December 2015:

- (a) On 11 May 2016, written resolutions of the sole shareholder of the Company was passed to approve the matters set out in the paragraph headed “Written resolutions of the sole Shareholder” in Appendix IV to the [REDACTED].
- (b) On 11 May 2016, the Company conditionally adopted a share option scheme pursuant to a resolution passed by the sole shareholder, where eligible employees and directors of the Group, among others, may be granted options entitling them to subscribe for the Company’s shares. No share option has been granted since the adoption of the scheme. The principal terms of the share option scheme are summarized in the section headed “Share Option Scheme” in Appendix IV to the [REDACTED].

**D. SUBSEQUENT FINANCIAL STATEMENTS**

No audited financial statements have been prepared by the Company, or any of its subsidiaries or the Group in respect of any period subsequent to 31 December 2015.

Yours faithfully,

**Deloitte Touche Tohmatsu**  
*Certified Public Accountants*  
Hong Kong

## APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

*The information set forth in this appendix does not form part of the accountants’ report on the financial information of our Group for each of the three years ended 31 December 2015 prepared by Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, the reporting accountants of our Company, as set forth in Appendix I in this [REDACTED] (the “Accountants’ Report”), and is included herein for illustrative purposes only. The unaudited pro forma financial information should be read in conjunction with the section headed “Financial Information” in this [REDACTED] and the Accountants’ Report set forth in Appendix I in this [REDACTED].*

### A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following is an illustrative unaudited pro forma statement of adjusted consolidated net tangible assets of our Group attributable to owner of our Company which has been prepared in accordance with Rule 7.31 of the GEM Listing Rules for the purpose of illustrating the effect of the [REDACTED] on the audited consolidated net tangible assets of our Group attributable to owner of our Company as at 31 December 2015, as if the [REDACTED] had taken place on 31 December 2015.

The unaudited pro forma adjusted consolidated net tangible assets of our Group attributable to owner of our Company has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of our Group attributable to owner of our Company had the [REDACTED] been completed as at 31 December 2015 or at any future dates. It is prepared based on the audited consolidated net tangible assets of our Group attributable to owner of our Company as at 31 December 2015 as set out in the Accountants’ Report set out in Appendix I to this [REDACTED], and adjusted as described below.

|  | Audited<br>consolidated net<br>tangible assets<br>of our Group<br>attributable to<br>owner of our<br>Company as of<br>31 December<br>2015<br>HK\$'000<br>(Note 1) | Estimated net<br>proceeds from<br>the<br>[REDACTED]<br>HK\$'000<br>(Note 2) | Unaudited pro<br>forma adjusted<br>consolidated net<br>tangible assets<br>of our Group<br>attributable to<br>owner of our<br>Company<br>HK\$'000 | Unaudited pro<br>forma adjusted<br>consolidated net<br>tangible assets<br>of our Group<br>attributable to<br>owner of our<br>Company per<br>Share<br>HK\$<br>(Note 3) |
|--|---|---|--|---|
| Based on the<br>[REDACTED] of<br>HK\$[REDACTED] per<br>Share | <u>[REDACTED]</u>   | <u>[REDACTED]</u>   | <u>[REDACTED]</u>  | <u>[REDACTED]</u>   |

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## APPENDIX II      UNAUDITED PRO FORMA FINANCIAL INFORMATION

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*Notes:*

1. The amount is determined based on audited consolidated net tangible assets of our Group attributable to owner of our Company as at 31 December 2015 amounting to approximately [REDACTED], extracted from the Accountants’ Report of our Group as set out in Appendix I to this [REDACTED].
2. The estimated net proceeds from the [REDACTED] are based on [REDACTED] Shares at the [REDACTED] of HK\$[REDACTED] per Share, after deduction of the estimated underwriting fees and other related expenses (excluding approximately HK\$[REDACTED] of [REDACTED] expenses accounted for prior to 31 December 2015). It does not take into account any shares which may be allotted and issued pursuant to the exercise of options which may be granted under the Share Option Scheme or any shares which may be allotted and issued or repurchased by our Company pursuant to the general mandate given to our Directors to allot and issue or repurchase shares referred to in the paragraph headed “General mandate to issue shares” or “General mandate to repurchase shares” under the section headed “Share capital” in this [REDACTED], as the case may be.
3. The unaudited pro forma adjusted consolidated net tangible assets of our Group attributable to owner of the Company per Share is calculated based on [REDACTED] Shares in issue immediately following the completion of the [REDACTED] and the Capitalisation Issue. It does not take into account any shares which may be allotted and issued pursuant to the exercise of options which may be granted under the Share Option Scheme or any shares which may be allotted and issued or repurchased by our Company pursuant to the general mandate given to our Directors to allot and issue or repurchase shares referred to in the paragraph headed “General mandate to issue shares” or “General mandate to repurchase shares” under the section headed “Share capital” in this [REDACTED], as the case may be.
4. No adjustment has been made to the unaudited pro forma adjusted consolidated net tangible assets of our Group attributable to owner of our Company as of 31 December 2015 to reflect any trading results or other transaction of the Group entered into subsequent to 31 December 2015.

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## **APPENDIX II      UNAUDITED PRO FORMA FINANCIAL INFORMATION**

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### **B.    ASSURANCE REPORT FROM THE REPORTING ACCOUNTANTS ON UNAUDITED PRO FORMA FINANCIAL INFORMATION**

*The following is the text of the assurance report received from Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, the reporting accountants of our Company, in respect of our Group’s unaudited pro forma financial information prepared for the purpose of incorporation in this [REDACTED].*

[REDACTED]

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## **APPENDIX II      UNAUDITED PRO FORMA FINANCIAL INFORMATION**

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[REDACTED]

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## **APPENDIX II      UNAUDITED PRO FORMA FINANCIAL INFORMATION**

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[REDACTED]

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## APPENDIX III

## SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

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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 6 February 2015 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

1.1 The Memorandum provides, inter alia, that the liability of members of the Company is limited and that the objects for which the Company is established are unrestricted (and therefore include acting as an investment company), and that the Company shall have and be capable of exercising any and all of the powers at any time or from time to time exercisable by a natural person or body corporate whether as principal, agent, contractor or otherwise and, since the Company is an exempted company, that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.

1.2 By special resolution the Company may alter the Memorandum with respect to any objects, powers or other matters specified in it.

### 2. ARTICLES OF ASSOCIATION

The Articles were conditionally adopted on 11 May 2016. A summary of certain provisions of the Articles is set out below.

#### 2.1 Shares

##### *2.1.1 Classes of shares*

The share capital of the Company consists of ordinary shares.

##### *2.1.2 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 shareholder being a corporation, by its duly

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## APPENDIX III

## SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

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authorized representative) or representing by proxy not less than one-third in nominal value of the issued shares of that class. Every holder of shares of the class shall be entitled on a poll to one vote for every such share held by him, and any holder of shares of the class present in person or by proxy may demand a poll.

Any special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

### *2.1.3 Alteration of capital*

The Company may, by an ordinary resolution of its members: (a) increase its share capital by the creation of new shares of such amount as it thinks expedient; (b) consolidate or divide all or any of its share capital into shares of larger or smaller amount than its existing shares; (c) divide its unissued shares into several classes and attach to such shares any preferential, deferred, qualified or special rights, privileges or conditions; (d) subdivide its shares or any of them into shares of an amount smaller than that fixed by the Memorandum; (e) cancel any shares which, at the date of the resolution, have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the shares so cancelled; (f) make provision for the allotment and issue of shares which do not carry any voting rights; (g) change the currency of denomination of its share capital; and (h) reduce its share premium account in any manner authorised and subject to any conditions prescribed by law.

### *2.1.4 Transfer of shares*

Subject to the Cayman Companies Law and the requirements of The Stock Exchange of Hong Kong Limited (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



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## APPENDIX III

## SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

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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.

### ***2.1.5 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.

### ***2.1.6 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.

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## SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

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### *2.1.7 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.

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## APPENDIX III

## SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

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### 2.2 Directors

#### *2.2.1 Appointment, retirement and removal*

At any time or from time to time, the Board shall have the power to appoint any person as a Director either to fill a casual vacancy on the Board or as an additional Director to the existing Board subject to any maximum number of Directors, if any, as may be determined by the members in general meeting. Any Director so appointed to fill a casual vacancy shall hold office only until the first general meeting of the Company after his appointment and be subject to re-election at such meeting. Any Director so appointed as an addition to the existing Board shall hold office only until the first annual general meeting of the Company after his appointment and be eligible for re-election at such meeting. Any Director so appointed by the Board shall not be taken into account in determining the Directors or the number of Directors who are to retire by rotation at an annual general meeting.

At each annual general meeting, one third of the Directors for the time being shall retire from office by rotation. However, if the number of Directors is not a multiple of three, then the number nearest to but not less than one third shall be the number of retiring Directors. The Directors to retire in each year shall be those who have been in office longest since their last re-election or appointment but, as between persons who became or were last re-elected Directors on the same day, those to retire shall (unless they otherwise agree among themselves) be determined by lot.

No person, other than a retiring Director, shall, unless recommended by the Board for election, be eligible for election to the office of Director at any general meeting, unless notice in writing of the intention to propose that person for election as a Director and notice in writing by that person of his willingness to be elected has been lodged at the head office or at the registration office of the Company. The period for lodgment of such notices shall commence no earlier than the day after despatch of the notice of the relevant meeting and end no later than seven days before the date of such meeting and the minimum length of the period during which such notices may be lodged must be at least seven days.

A Director is not required to hold any shares in the Company by way of qualification nor is there any specified upper or lower age limit for Directors either for accession to or retirement from the Board.

A Director may be removed by an ordinary resolution of the Company before the expiration of his term of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and the Company may by ordinary resolution appoint another in his place. Any Director so appointed shall be subject to the "retirement by rotation" provisions. The number of Directors shall not be less than two.

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## SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

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The office of a Director shall be vacated if he:

- (a) resign;
- (b) dies;
- (c) is declared to be of unsound mind and the Board resolves that his office be vacated;
- (d) becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;
- (e) he is prohibited from being or ceases to be a director by operation of law;
- (f) without special leave, is absent from meetings of the Board for six consecutive months, and the Board resolves that his office is vacated;
- (g) has been required by the stock exchange of the Relevant Territory (as defined in the Articles) to cease to be a Director; or
- (h) 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.

### ***2.2.2 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.

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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.

### ***2.2.3 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.

### ***2.2.4 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.

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### *2.2.5 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.

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### *2.2.6 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.

### *2.2.7 Loans and provision of security for loans to Directors*

There are provisions in the Articles prohibiting the making of loans to Directors and their close associates which are equivalent to provisions of Hong Kong law prevailing at the time of adoption of the Articles.

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.

### *2.2.8 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



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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:

- (a) 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;
- (b) 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;
- (c) 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;
- (d) 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



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- (e) any contract or arrangement in which the Director or his close associate(s) is/are interested in the same manner as other holders of shares, debentures or other securities of the Company by virtue only of his/their interest in those shares, debentures or other securities.

### ***2.2.9 Proceedings of the Board***

The Board may meet anywhere in the world for the despatch of business and may adjourn and otherwise regulate its meetings as it thinks fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have a second or casting vote.

### **2.3 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.

### **2.4 Meetings of member**

#### ***2.4.1 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.

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### *2.4.2 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.

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Where the Company has knowledge that any member is, under the GEM 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.

### *2.4.3 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.

### *2.4.4 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:

- (a) in the case of an annual general meeting, by all members of the Company entitled to attend and vote thereat; and
- (b) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting holding not less than 95% of the total voting rights in the Company.

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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.

### *2.4.5 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.

### *2.4.6 Proxies*

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. On a poll or on a show of hands, votes may be given either personally (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy.

The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly 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.

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### 2.5 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 summarized financial statements to shareholders who have, in accordance with the rules of the stock exchange of the Relevant Territory, consented and elected to receive summarized financial statements instead of the full financial statements. The summarized financial statements must be accompanied by any other documents as may be required under the rules of the stock exchange of the Relevant Territory, and must be sent to those shareholders that have consented and elected to receive the summarised financial statements not less than 21 days before the date of the annual general meeting.

The Company shall appoint auditor(s) to hold office until the conclusion of the next annual general meeting on such terms and with such duties as may be agreed with the Board. The auditors' remuneration shall be fixed by the Company in general meeting or by the Board if authority is so delegated by the members.

The 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.

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### 2.6 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:

- 2.6.1 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;
- 2.6.2 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
- 2.6.3 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:

- (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the 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
- (b) 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.

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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 subsequently declared or to exercise any other rights or privileges as a member in respect of the share or the due portion of the shares upon which payment has been advanced by such member before it is called up.

All dividends, bonuses or other distributions unclaimed for one year after having been declared may be invested or otherwise used by the Board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends, bonuses or other distributions unclaimed for six years after having been declared may be forfeited by the Board and, upon such forfeiture, shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

The Company may exercise the power to cease sending cheques for dividend entitlements or dividend warrants by post if such cheques or warrants remain uncashed on two consecutive occasions or after the first occasion on which such a cheque or warrant is returned undelivered.

### **2.7 Inspection of corporate records**

For so long as any part of the share capital of the Company is listed on the Stock Exchange, any member may inspect any register of members of the Company maintained in Hong Kong (except when the register of members is closed) without charge and require the provision to him of copies or extracts of such register in all respects as if the Company were incorporated under and were subject to the Hong Kong Companies Ordinance.

### **2.8 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 summarized in paragraph 3.6 of this Appendix.



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### 2.9 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:

2.9.1 if the Company is wound up and the assets available for distribution among the members of the Company are more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, then the excess shall be distributed *pari passu* among such members in proportion to the amount paid up on the shares held by them respectively; and

2.9.2 if the Company is wound up and the assets available for distribution among the members as such are insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up on the shares held by them, respectively.

If the Company is wound up (whether the liquidation is voluntary or compelled by the court), the liquidator may, with the sanction of a special resolution and any other sanction required by the Cayman Companies Law, divide among the members in specie or kind the whole or any part of the assets of the Company, whether the assets consist of property of one kind or different kinds, and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be so divided and may determine how such division shall be carried out as between the members or different classes of members and the members within each class. The liquidator may, with the like sanction, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator thinks fit, but so that no member shall be compelled to accept any shares or other property upon which there is a liability.

### 2.10 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.



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### **3. CAYMAN ISLANDS COMPANY LAW**

The Company was incorporated in the Cayman Islands as an exempted company on 6 February 2015 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.

#### **3.1 Company operations**

An exempted company such as the Company must conduct its operations mainly outside the Cayman Islands. An exempted company is also required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

#### **3.2 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:

- 3.2.1 paying distributions or dividends to members;
- 3.2.2 paying up unissued shares of the company to be issued to members as fully paid bonus shares;
- 3.2.3 any manner provided in section 37 of the Cayman Companies Law;
- 3.2.4 writing-off the preliminary expenses of the company; and
- 3.2.5 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.

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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.

### **3.3 Financial assistance to purchase shares of a company or its holding company**

There are no statutory prohibitions in the Cayman Islands on the granting of financial assistance by a company to another person for the purchase of, or subscription for, its own, its holding company's or a subsidiary's shares. Therefore, a company may provide financial assistance provided the directors of the company, when proposing to grant such financial assistance, discharge their duties of care and act in good faith, for a proper purpose and in the interests of the company. Such assistance should be on an arm's-length basis.

### **3.4 Purchase of shares and warrants by a company and its subsidiaries**

A company limited by shares or a company limited by guarantee and having a share capital may, if so 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.

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A subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

### **3.5 Dividends and distributions**

Subject to a solvency test, as prescribed in the Cayman Companies Law, and the provisions, if any, of the company's memorandum and articles of association, a company may pay dividends and distributions out of its share premium account. In addition, based upon English case law which is likely to be persuasive in the Cayman Islands, dividends may be paid out of profits.

For so long as a company holds treasury shares, no dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made, in respect of a treasury share.

### **3.6 Protection of minorities and shareholders' suits**

It can be expected that the Cayman Islands courts will ordinarily follow English case law precedents (particularly the rule in the case of *Foss 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.

### **3.7 Disposal of assets**

There are no specific restrictions on the power of directors to dispose of assets of a company, however, the directors are expected to exercise certain duties of care, diligence and skill to the standard that a reasonably prudent person would exercise in comparable circumstances, in addition to fiduciary duties to act in good faith, for proper purpose and in the best interests of the company under English common law (which the Cayman Islands courts will ordinarily follow).

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## APPENDIX III

## SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

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### 3.8 Accounting and auditing requirements

A company must cause proper records of accounts to be kept with respect to: (i) all sums of money received and expended by it; (ii) all sales and purchases of goods by it and (iii) its assets and liabilities.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

If a company keeps its books of account at any place other than at its registered office or any other place within the Cayman Islands, it shall, upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law (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.

### 3.9 Exchange control

There are no exchange control regulations or currency restrictions in effect in the Cayman Islands.

### 3.10 Taxation

Pursuant to section 6 of the Tax Concessions Law (2011 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Cabinet that:

- 3.10.1 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
- 3.10.2 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:
  - (a) on or in respect of the shares, debentures or other obligations of the Company; or
  - (b) by way of withholding in whole or in part of any relevant payment as defined in section 6(3) of the Tax Concessions Law (2011 Revision).

The undertaking for the Company is for a period of 20 years from 24 March 2015.

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## **APPENDIX III**

## **SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW**

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The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save for certain stamp duties which may be applicable, from time to time, on certain instruments.

### **3.11 Stamp duty on transfers**

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies save for those which hold interests in land in the Cayman Islands.

### **3.12 Loans to directors**

There is no express provision prohibiting the making of loans by a company to any of its directors. However, the company's articles of association may provide for the prohibition of such loans under specific circumstances.

### **3.13 Inspection of corporate records**

The members of a company have no general right to inspect or obtain copies of the register of members or corporate records of the company. They will, however, have such rights as may be set out in the company's articles of association.

### **3.14 Register of members**

A Cayman Islands exempted company may maintain its principal register of members and any branch registers in any country or territory, whether within or outside the Cayman Islands, as the company may determine from time to time. There is no requirement for an exempted company to make any returns of members to the Registrar of Companies in the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection. However, an exempted company shall make available at its registered office, in electronic form or any other medium, such register of members, including any branch register of member, as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law (2013 Revision) of the Cayman Islands.

### **3.15 Register of Directors and officers**

Pursuant to the Cayman Companies Law, the Company is required to maintain at its registered office a register of directors, alternate directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within 60 days of any change in such directors or officers, including a change of the name of such directors or officers.

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### 3.16 Winding up

A Cayman Islands company may be wound up by: (i) an order of the court; (ii) voluntarily by its members; or (iii) under the supervision of the court.

The court has authority to order winding up in a number of specified circumstances including where, in the opinion of the court, it is just and equitable that such company be so wound up.

A voluntary winding up of a company (other than a limited duration company, for which specific rules apply) occurs where the company resolves by special resolution that it be wound up voluntarily or where the company in general meeting resolves that it be wound up voluntarily because it is unable to pay its debt as they fall due. In the case of a voluntary winding up, the company is obliged to cease to carry on its business from the commencement of its winding up except so far as it may be beneficial for its winding up. Upon appointment of a voluntary liquidator, all the powers of the directors cease, except so far as the company in general meeting or the liquidator sanctions their continuance.

In the case of a members' voluntary winding up of a company, one or more liquidators are appointed for the purpose of winding up the affairs of the company and distributing its assets.

As soon as the affairs of a company are fully wound up, the liquidator must make a report and an account of the winding up, showing how the winding up has been conducted and the property of the company disposed of, and call a general meeting of the company for the purposes of laying before it the account and giving an explanation of that account.

When a resolution has been passed by a company to wind up voluntarily, the liquidator or any contributory or creditor may apply to the court for an order for the continuation of the winding up under the supervision of the court, on the grounds that: (i) the company is or is likely to become insolvent; or (ii) the supervision of the court will facilitate a more effective, economic or expeditious liquidation of the company in the interests of the contributories and creditors. A supervision order takes effect for all purposes as if it was an order that the company be wound up by the court except that a commenced voluntary winding up and the prior actions of the voluntary liquidator shall be valid and binding upon the company and its official liquidator.

For the purpose of conducting the proceedings in winding up a company and assisting the court, one or more persons may be appointed to be called an official liquidator(s). The court may appoint to such office such person or persons, either provisionally or otherwise, as it thinks fit, and if more than one person is appointed to such office, the court shall declare whether any act required or authorized to be done by the official liquidator is to be done by all or any one or more of such persons. The court may also determine whether any and what security is to be given by an official

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## APPENDIX III

## SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

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liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the court.

### **3.17 Reconstructions**

Reconstructions and amalgamations may be approved by a majority in number representing 75% 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.

### **3.18 Take-overs**

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90% of the shares which are the subject of the offer accept, the offeror may, at any time within two months after the expiration of that four month period, by notice require the dissenting members to transfer their shares on the terms of the offer. A dissenting member may apply to the Cayman Islands courts within one month of the notice objecting to the transfer. The burden is on the dissenting member to show that the court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority members.

### **3.19 Indemnification**

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.

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**APPENDIX III****SUMMARY OF THE CONSTITUTION OF  
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**4. GENERAL**

Appleby, the legal advisers to our Company as to Cayman Islands law, has sent to our 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 [REDACTED]. 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.



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### A. FURTHER INFORMATION ABOUT OUR COMPANY AND OUR SUBSIDIARIES

#### 1. Incorporation of our Company

Our Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 6 February 2015. Our Company has established a place of business in Hong Kong at Unit 03, 15/F., 909 Cheung Sha Wan Road, Cheung Sha Wan, Kowloon, Hong Kong and was registered as a non-Hong Kong company under Part 16 of the Companies Ordinance on 8 April 2015. In connection with such registration, Mr. KW Ho and Ms. Lee Kit Yu have been appointed as the authorised representatives of our Company for acceptance of service of process and notices on behalf of our Company in Hong Kong.

As our Company was incorporated in the Cayman Islands, its operations are subject to the relevant laws and regulations of the Cayman Islands, Companies Law and its constitution, which comprises its Memorandum of Association and Articles of Association. A summary of certain provisions of its constitution and relevant aspects of the Companies Law is set out in Appendix III to this [REDACTED].

#### 2. Changes in authorised and issued share capital of our Company

- (a) Our Company was incorporated in the Cayman Islands on 6 February 2015 with an authorised share capital of HK\$380,000 divided into 38,000,000 Shares of HK\$0.01 each. As at the date of incorporation, one nil paid subscriber Share was allotted and issued to the subscriber, which was transferred to Mr. KW Ho on the same date.
- (b) On 20 August 2015, pursuant to the Reorganisation Agreement, our Company acquired the entire issued share capital of United Acme from Mr. KW Ho, and in consideration thereof, (i) the one nil paid subscriber Share held by Mr. KW Ho as referred to in paragraph 2(a) above was credited as fully paid; and (ii) our Company issued and allotted 999 Shares, credited as fully paid, to Asia Matrix, as directed by Mr. KW Ho.
- (c) On 20 August 2015, the one fully paid subscriber Share was transferred from Mr. KW Ho to Asia Matrix at the consideration of HK\$1.
- (d) Pursuant to the written resolutions of the sole Shareholder passed on 11 May 2016, the authorised share capital of our Company was increased from HK\$380,000 to HK\$10,000,000 by the creation of a further 962,000,000 Shares.
- (e) Immediately following the completion of the [REDACTED] and the Capitalisation Issue, without taking into account any Shares which may be issued upon the exercise of any options which may be granted under the Share Option Scheme, the authorised share capital of our Company will be HK\$[REDACTED] divided into 1,000,000,000 Shares, of which [REDACTED] Shares will be allotted and issued, fully paid or credited as

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fully paid and [REDACTED]Shares will remain unissued. Other than the Shares issuable pursuant to the exercise of any options which may fall to be granted under the Share Option Scheme, or the exercise of the general mandate referred to in “A. Further information about our Company and our subsidiaries – 3. Written resolutions of the sole Shareholder” in this Appendix, our Directors have no present intention to issue any part of the authorised but unissued capital of our Company, and without the prior approval of our Shareholders in general meeting, no issue of Shares will be made which would effectively alter the control of our Company.

- (f) Save as disclosed above, there has been no alteration in the share capital of our Company since its incorporation.

### 3. Written resolutions of the sole Shareholder

Pursuant to the written resolutions passed by the sole Shareholder on 11 May 2016, *inter alia*:

- (a) the authorised share capital of our Company was increased from HK\$380,000 divided into 38,000,000 Shares of HK\$0.01 each to HK\$10,000,000 divided into 1,000,000,000 Shares of HK\$0.01 each by the creation of an additional 962,000,000 Shares of HK\$0.01 each;
- (b) conditional on the conditions as set out in “Structure and conditions of the [REDACTED]” in this [REDACTED]:
  - (i) the [REDACTED] was approved and our Directors were authorised to (aa) allot and issue the [REDACTED] to rank *pari passu* with the then existing Shares in all respects; (bb) implement the [REDACTED] and the [REDACTED] of Shares on GEM; and (cc) do all things and execute all documents in connection with or incidental to the [REDACTED] and the [REDACTED] with such amendments or modifications (if any) as our Directors may consider necessary or appropriate;
  - (ii) conditional on the share premium account of our Company being credited as a result of the allotment and issue of the [REDACTED] pursuant to the [REDACTED], our Directors were authorised to capitalise a maximum amount of HK\$[REDACTED] standing to the credit of the share premium account of our Company and to apply such amount in paying up in full a total of [REDACTED] Shares for allotment and issue, credited as fully paid at par and rank *pari passu* in all respects with each other and the existing issued Shares (except entitlement to the Capitalisation Issue), to Asia Matrix and our Directors were authorised to give effect to such capitalisation and distribution;
  - (iii) the rules of the Share Option Scheme, the principal terms of which are set out in “D. Share Option Scheme” in this Appendix, were approved and adopted and our Directors were authorised, subject to the terms and

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conditions of the Share Option Scheme, to grant options to subscribe for Shares thereunder and to allot, issue and deal with the Shares pursuant to the exercise of options that may be granted under the Share Option Scheme and to take all such steps as may be necessary desirable or expedient to implement the Share Option Scheme;

- (iv) a general unconditional mandate was given to our Directors to exercise all the powers of our Company to allot, issue and deal with, otherwise than by way of rights issues or an issue of Shares upon the exercise of any subscription rights attached to any warrants of our Company or pursuant to the exercise of any options which may be granted under the Share Option Scheme or under any other option scheme or similar arrangement for the time being adopted for the grant or issue to officers and/or employees of our Company and/or any of our subsidiaries of shares or rights to acquire shares or any scrip dividend schemes or similar arrangements providing for the allotment and issue of shares of our Company in lieu of the whole or part of a dividend on Shares in accordance with the Articles of Association or a specific authority granted by our Shareholders in general meeting, Shares with an aggregate number not exceeding (1) 20% of the aggregate number of issued shares of our Company immediately following completion of the Capitalisation Issue and the [REDACTED] (without taking into account any Shares falling to be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme); and (2) the aggregate number of shares repurchased under the Repurchase Mandate as defined in paragraph (v) below. Such mandate shall remain in effect until whichever is the earliest of:

- (1) the conclusion of the next annual general meeting of our Company;
- (2) the expiration of the period within which the next annual general meeting of our Company is required to be held by the Articles of Association or any other applicable laws of the Cayman Islands; or
- (3) the passing of an ordinary resolution of our Shareholders in general meeting revoking, varying or renewing such mandate;

- (v) a general unconditional mandate (the “**Repurchase Mandate**”) was given to our Directors to exercise all powers of our Company to repurchase on the Stock Exchange or on any other stock exchange on which the securities of our Company may be [REDACTED] and which is recognised by the SFC and the Stock Exchange for this purpose, such number of Shares as will represent up to 10% of the aggregate number of issued shares of our Company immediately following the completion of the Capitalisation Issue and the [REDACTED] (without taking into account any Shares falling to be issued pursuant to the

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exercise of any options which may be granted under the Share Option Scheme), such mandate shall remain in effect until whichever is the earliest of:

- (1) the conclusion of the next annual general meeting of our Company;
  - (2) the expiration of the period within which the next annual general meeting of our Company is required to be held by the Articles of Association or any other applicable laws of the Cayman Islands; or
  - (3) the passing of an ordinary resolution of our Shareholders in general meeting revoking, varying or renewing such mandate;
- (vi) the general unconditional mandate mentioned in paragraph (iv) above was extended by the addition to the aggregate number of shares of our Company which may be allotted or agreed conditionally or unconditionally to be allotted, issued or dealt with by our Directors pursuant to such general mandate of the aggregate number of issued shares of our Company repurchased by our Company pursuant to the Repurchase Mandate referred to in paragraph (v) above provided that such extended amount shall not exceed 10% of the aggregate number of issued Shares of our Company immediately following the completion of the [REDACTED] and the Capitalisation Issue excluding any Shares which may be issued upon exercise of any options that may be granted under the Share Option Scheme; and
- (vii) our Company approved and adopted the Memorandum of Association and Articles of Association, the terms of which are summarised in Appendix III to this [REDACTED].

### 4. Reorganisation

The companies comprising our Group underwent a Reorganisation in preparation for the [REDACTED], details of which are set out in the section headed “History, Reorganisation and corporate structure – Reorganisation” in this [REDACTED]. Following the Reorganisation, our Company became the holding company of our Group.

Diagrams showing our Group structure after the Reorganisation and immediately upon completion of the Capitalisation Issue and the [REDACTED] (assuming that no Share has been allotted and issued pursuant to the exercise of any options which may be granted under the Share Option Scheme) are set out in the section headed “History, Reorganisation and corporate structure – Reorganisation” in this [REDACTED].

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### 5. Changes in share capital of subsidiaries

Our Company’s subsidiaries are referred to in the Accountants’ Report, the text of which is set out in Appendix I to this [REDACTED].

Save as mentioned in the section headed “History, Reorganisation and corporate structure – Corporate history”, there was no change in the share capital of the major subsidiaries of our Company during the two years preceding the date of this [REDACTED].

Save for the subsidiaries mentioned in Appendix I to this [REDACTED], our Company has no other subsidiaries.

### 6. Repurchase by our Company of its own securities

This paragraph includes information required by the Stock Exchange to be included in this [REDACTED] concerning the repurchase by our Company of its own securities.

#### *(a) Provisions of the GEM Listing Rules*

The GEM Listing Rules permit companies with a primary listing on the Stock Exchange to repurchase their securities on the Stock Exchange subject to certain restrictions, the most important of which are summarised below:

##### *(i) Shareholders’ approval*

All proposed repurchases of securities (which must be fully paid up in the case of shares) by a company listed on the Stock Exchange must be approved in advance by an ordinary resolution of the shareholders in a general meeting, either by way of general mandate or by specific approval of a particular transaction.

*Note:* Pursuant to the written resolutions passed by the sole Shareholder on 11 May 2016, a general mandate was given to our Directors to exercise all powers of our Company to purchase Shares on the Stock Exchange or any other stock exchange on which the securities of our Company may be [REDACTED] and which is recognised by the SFC and the Stock Exchange for this purpose, of up to 10% of the aggregate number of issued shares of our Company immediately following completion of the Capitalisation Issue and the [REDACTED]. The general mandate will remain in effect until whichever is the earliest of: (i) the conclusion of the next annual general meeting of our Company; (ii) the expiration of the period within which the next annual general meeting of our Company is required to be held by the Articles of Association or any applicable Cayman Islands law; or (iii) the passing of an ordinary resolution by the Shareholders in general meeting revoking, varying or renewing such mandate.

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### *(ii) Source of funds*

Any repurchases must be financed out of funds legally available for such purpose in accordance with the Memorandum of Association and Articles of Association and any applicable laws of the Cayman Islands. A listed company is prohibited from repurchasing its own securities on the GEM for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time.

Under the Cayman Islands law, any repurchases by our Company may be made out of profits of our Company or out of the proceeds of a fresh issue of share made for the purpose of the repurchase or, if authorised by the Articles of Association and subject to the Companies Law, out of capital and, in case of any premium payable on the repurchase, out of profits of our Company or from sums standing to the credit of the share premium accounts of our Company, or if authorised by the Articles of Association and subject to the Companies Law, out of capital.

### *(iii) Trading restrictions*

A company is authorised to repurchase on the GEM or on any other stock exchange recognised by the SFC in Hong Kong and the Stock Exchange the total number of shares which represent up to a maximum of 10% of the aggregate number of shares in issue of that company or warrants to subscribe for shares in that company representing up to 10% of the amount of warrants then outstanding at the date of the passing of the relevant resolution granting the repurchase mandate. A company may not issue or announce an issue of new securities of the type that have been repurchased for a period of 30 days immediately following a repurchase of securities whether on the GEM or otherwise (except pursuant to the exercise of warrants, share options or similar instruments requiring the company to issue securities which were outstanding prior to the repurchase) without the prior approval of the Stock Exchange. A company is also prohibited from making securities repurchase on the GEM if the result of the repurchases would be that the number of the listed securities in hands of the public would be below the relevant prescribed minimum percentage for that company as required and determined by the Stock Exchange. A company shall not purchase its shares on the GEM if the purchase price is higher by 5% or more than the average closing market price for the five preceding trading days on which its shares were traded on the GEM.

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### *(iv) Status of repurchased securities*

The listing of all repurchased securities (whether on GEM or otherwise) is automatically cancelled upon the repurchase and the relevant certificates must be cancelled and destroyed. Under the Cayman Islands law, a company's repurchased shares if not held by the company as treasury shares, may be treated as cancelled and, if so cancelled, the amount of that company's issued share capital shall be reduced by the aggregate nominal value of the repurchased shares accordingly although the authorised share capital of the company will not be reduced.

### *(v) Suspension of repurchase*

A listed company shall not make any repurchase of securities at any time after inside information has come to its knowledge until the information is made publicly available. In particular, during the period of one month immediately preceding the earlier of: (i) the date of the board meeting (as such date is first notified to the Stock Exchange in accordance with the GEM Listing Rules) for the approval of a listed company's results for any year, half-year, quarterly or any other interim period (whether or not required under the GEM Listing Rules) and (ii) the deadline for publication of an announcement of a listed company's results for any year or half-year under the GEM Listing Rules, or quarterly or any other interim period (whether or not required under the GEM Listing Rules) and ending on the date of the results announcement, the listed company may not repurchase its shares on GEM other than in exceptional circumstances and provided that a waiver on all or any of the restrictions under the GEM Listing Rules has been granted by the Stock Exchange. In addition, the Stock Exchange may prohibit repurchases of securities on the GEM if a company has breached the GEM Listing Rules.

### *(vi) Reporting requirements*

Repurchases of securities on the GEM or otherwise must be reported to the Stock Exchange not later than 30 minutes before the earlier of the commencement of the morning trading session or any pre-opening session on the following trading day. In addition, a company's annual report and accounts are required to include a monthly breakdown of securities repurchases made during the financial year under review, showing the number of securities repurchased each month (whether on the GEM or otherwise), the purchase price per share or the highest and lowest prices paid for all such repurchases and the total prices paid. The directors' report is also required to contain reference to the purchases made during the year and the directors' reasons for making such purchases. The company shall make arrangements with its broker who effects the purchase to provide the company in a timely fashion the necessary information in relation to the purchase made on behalf of the company to enable the company to report to the Stock Exchange.



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### *(vii) Core connected persons*

Under the GEM Listing Rules, a company shall not knowingly repurchase shares from a core connected person (as defined in the GEM Listing Rules) and a core connected person shall not knowingly sell his shares to the company.

### *(b) Exercise of the Repurchase Mandate*

Exercise in full of the Repurchase Mandate, on the basis of [REDACTED] Shares in issue immediately after [REDACTED], could accordingly result in up to [REDACTED] Shares being repurchased by our Company during the period in which the Repurchase Mandate remains in force.

### *(c) Reasons for repurchases*

Repurchases of Shares will only be made when our Directors believe that such a repurchase will benefit our Company and Shareholders. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value and/or earnings per Share.

### *(d) Funding of repurchases*

In repurchasing Shares, our Company may only apply funds legally available for such purpose in accordance with our Memorandum of Association and Articles of Association and the applicable laws and regulations of the Cayman Islands.

On the basis of the current financial position of our Group as disclosed in this [REDACTED] and taking into account the current working capital position of our Group, our Directors consider that, if the Repurchase Mandate was to be exercised in full, it might have a material adverse effect on the working capital and/or the gearing position of our Group as compared with the position disclosed in this [REDACTED]. 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 Group or the gearing levels which in the opinion of our Directors are from time to time appropriate for our Group.

### *(e) General*

None of our Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their close associates currently intends to sell any Shares to our Company.

Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the GEM Listing Rules, our Memorandum and Articles and the applicable laws of the Cayman Islands.



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No core connected person of our Company has notified our Company that he or she has a present intention to sell Shares to our Company, or has undertaken not to do so, in the event that the Repurchase Mandate is exercised.

If as a result of a repurchase of Shares, a Shareholder’s proportionate interest in the voting rights of our Company is increased, such increase will be treated as an acquisition for the purpose of the Takeovers Code. As a result, a Shareholder, or a group of Shareholders acting in concert, depending on the level of increase in the Shareholder’s interest, could obtain or consolidate control of our Company and become(s) 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 consequence which would arise under the Takeovers Code due to any repurchase made pursuant to the Repurchase Mandate immediately after the [REDACTED].

### B. FURTHER INFORMATION ABOUT THE BUSINESS OF OUR GROUP

#### 1. Summary of material contracts

The following contracts (not being contracts entered into the ordinary course of business of our Group) have been entered into by members of our Group within the two years immediately preceding the date of this [REDACTED] and are or may be material:

- (a) the Reorganisation Agreement;
- (b) the Deed of Indemnity;
- (c) the Deed of Non-Competition; and
- (d) the Underwriting Agreement.






#### 2. Intellectual property rights of our Group

##### (a) Trademarks

As at the Latest Practicable Date, our Group had registered the following trademarks which are material to our Group’s business:

| Trademark                | Place of registration | Registration number(s) | Registrant | Class<br>(Note 2) | Expiry date     |
|--------------------------|-----------------------|------------------------|------------|-------------------|-----------------|
| <i>Dodge&amp;Sweeney</i> | Hong Kong             | 302794069              | Ever Smart | 25                | 6 November 2023 |

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| Trademark   | Place of registration | Registration number(s) | Registrant | Class<br>(Note 2) | Expiry date      |
|---|-----------------------|------------------------|------------|-------------------|------------------|
|            | Hong Kong             | 302833911              | Ever Smart | 25                | 11 December 2023 |
|            | Hong Kong             | 303381804              | Ever Smart | 25                | 21 April 2025    |
| <i>Dodge &amp; Sweeney</i>  | UK                    | UK00003029700          | Ever Smart | 25                | 7 November 2023  |
|            | UK                    | UK00003034370          | Ever Smart | 25                | 11 December 2023 |
|            | PRC                   | 13703889               | Ever Smart | 25                | 6 February 2025  |
| <br>迪 恩 士 | PRC                   | 13794388               | Ever Smart | 25                | 6 March 2025     |

As at the Latest Practicable Date, our Group had applied for registration of the following trademark (Note 1):

| Trademark   | Place of registration | Application number | Name of applicant | Class          | Date of application |
|---|-----------------------|--------------------|-------------------|----------------|---------------------|
|  | PRC                   | 16794837           | Ever Smart        | 25<br>(Note 2) | 24 April 2015       |

*Notes:*

1. The trademark application was rejected by the Trademark Office of the State Administration for Industry & Commerce of the PRC due to similarity with existing registered trademarks. Our Group does not intend to lodge any appeal in respect of the rejection.
2. Class 25: Clothing; breeches for wear; outerclothing; tee-shirts; drawers clothing; socks; sandals; shoes; sports shoes; caps headwear.

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### (b) *Domain name*

As at the Latest Practicable Date, our Group had registered the following domain names:

| Domain name  | Registrant | Date of registration | Expiry date     |
|--------------|------------|----------------------|-----------------|
| esmart.hk    | Ever Smart | 22 January 2009      | 22 January 2019 |
| eversmart.hk | Ever Smart | 14 April 2015        | 20 April 2020   |

Information contained in the above website does not form part of this [REDACTED].

Save as disclosed herein, there are no other trade or service marks, patents, copyrights, other intellectual or industrial property rights which are or may be material to the business of our Group.

## C. FURTHER INFORMATION ABOUT DIRECTORS, MANAGEMENT AND STAFF

### 1. Directors

#### (a) *Disclosure of interests of Directors*

So far as our Directors are aware, immediately following completion of the Capitalisation Issue and the [REDACTED] (without taking into account the Shares which may be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme), the interests and short positions of our Directors and chief executive of our Company in the Shares, underlying shares and debentures of our Company or any associated corporation (within the meaning of Part XV of the SFO) which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they are taken or deemed to have taken under such provisions), 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 Rules 5.46 and 5.67 of the GEM Listing Rules, will be as follows:

#### (i) *Long position in the Shares*

| Name of Director(s) | Capacity                             | Number and class of securities | Percentage of shareholding |
|---------------------|--------------------------------------|--------------------------------|----------------------------|
| Mr. KW Ho<br>(Note) | Interest in a controlled corporation | [REDACTED] ordinary Shares     | [REDACTED]%                |

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*Note:* These Shares are registered in the name of Asia Matrix, a company which is wholly owned by Mr. KW Ho. Under the SFO, Mr. KW Ho is deemed to be interested in all the Shares registered in the name of Asia Matrix.

### (ii) Long position in the ordinary shares of associated corporation

| Name of Director(s) | Name of associated corporation | Capacity/ Nature | No. of share(s) held | Percentage of interest |
|---------------------|--------------------------------|------------------|----------------------|------------------------|
| Mr. KW Ho           | Asia Matrix                    | Beneficial owner | 1                    | 100%                   |

### (b) Particulars of service contracts

Each of Mr. KW Ho and Mr. KP Ho, our executive Directors, has entered into a service contract with our Company for an initial fixed term of three years commencing from the [REDACTED] until terminated by not less than three months’ notice in writing served by either party. Commencing from the [REDACTED], each of our executive Directors is entitled to an annual salary set out below, such salary to be reviewed annually by our Board and the remuneration committee of our Company.

In addition, each of our executive Directors may be entitled to, if so recommended by the remuneration committee of our Company and approved by the Board at its absolute discretion, a discretionary bonus, the amount of which is determined with reference to the operating results of our Group and the performance of the executive Director, provided that the relevant executive Director shall abstain from voting and not be counted in the quorum in respect of any resolution of our Board approving the amount of annual salary, discretionary bonus and other benefits payable to him. The current basic annual salary of our executive Directors are as follows:

| Name      | Amount<br>(HK\$) |
|-----------|------------------|
| Mr. KW Ho | 2,640,000        |
| Mr. KP Ho | 696,000          |

Each of Mr. Lee Tat Yin Rick, Mr. Lu Tak Ming and Mr. Yuen Poi Lam William, being our independent non-executive Directors, has entered into a letter of appointment with our Company for an initial term of service commencing from the [REDACTED] and shall continue thereafter subject to a maximum of three years unless terminated by either party giving not less than one month’s notice in writing. Commencing from the [REDACTED], the independent non-executive Directors are entitled to an annual director’s fee as set out below:

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| Name                     | Amount<br>(HK\$) |
|--------------------------|------------------|
| Mr. Lee Tat Yin Rick     | 60,000           |
| Mr. Lu Tak Ming          | 75,000           |
| Mr. Yuen Poi Lam William | 180,000          |

Save as disclosed above, none of our Directors has or is proposed to enter into a service contract or letter of appointment with our Company or any of our subsidiaries (other than contracts expiring or determinable by our Group within one year without the payment of compensation (other than statutory compensation)).

### *(c) Directors' remuneration*

Our Company's policies concerning remuneration of executive Directors are:

- (i) the amount of remuneration payable to our executive Directors will be determined on a case by case basis depending on the experience, responsibility, workload and the time devoted to our Group by the relevant Director;
- (ii) non-cash benefits may be provided to our Directors under their remuneration package; and
- (iii) our executive Directors may be granted, at the discretion of our Board, share options of our Company, as part of the remuneration package.

An aggregate sum of approximately HK\$4.2 million, HK\$3.9 million and HK\$3.9 million was paid to our Directors as remuneration and benefits in kind in their capacity as Directors by our Group for the three years ended 31 December 2015, respectively.

An aggregate sum of approximately HK\$3.5 million will be paid to our Directors as remuneration and benefits in kind by our Group for the year ending 31 December 2016 under the arrangements in force at the date of this [REDACTED] excluding management bonus.

## **2. Substantial shareholders**

So far as our Directors are aware, immediately following the completion of the Capitalisation Issue and the [REDACTED] and taking no account of any Shares which may be taken up under the [REDACTED] or any Shares which may be allotted and issued upon the exercise of any options which may be granted under the Share Option Scheme, the following persons or entities (not being our Directors or chief executive of our Company) will have an interest or a short position in the Shares or the underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which would be recorded in the register

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of our Company required to be kept under section 336 of the SFO, or who will be, directly or indirectly, to be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company or any other members of our Group:

### *Long positions in Shares, underlying Shares and debentures*

| Name        | Capacity         | Number and class of securities | Percentage of shareholding |
|-------------|------------------|--------------------------------|----------------------------|
| Asia Matrix | Beneficial owner | [REDACTED] ordinary Shares     | [REDACTED]%                |

### 3. Related party transactions

Our Group entered into the related party transactions during the Track Record Period as mentioned in note 28 of the Accountants’ Report set out in Appendix I to this [REDACTED].

### 4. Disclaimers

Save as disclosed in this Appendix and the section headed “Substantial Shareholders” in this [REDACTED]:

- (a) and taking no account of any Shares which may be taken up or acquired under the [REDACTED] or any Shares which may be allotted and issued upon the exercise of any options which may be granted under the Share Option Scheme, our Directors are not aware of any person who immediately following completion of the Capitalisation Issue and the [REDACTED] will have an interest or short position in the Shares and underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or who is, either 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 the general meetings of our Company or any other members of our Group;
- (b) none of our Directors and chief executive of our Company has for the purposes of Divisions 7 and 8 of Part XV of the SFO or the GEM Listing Rules, nor is any of them taken to or deemed to have under Divisions 7 and 8 of Part XV of the SFO, an interest or short position in the shares, underlying shares and debentures of our Company or any associated corporations (within the meaning of the SFO) or any interests which will have to be entered in the register to be kept by our Company pursuant to section 352 of the SFO or which will be required to be notified to our Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules once the Shares are [REDACTED] on the Stock Exchange;

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- (c) none of our Directors nor the experts named in “E. Other information – 7. Qualifications of experts” in this Appendix has any direct or indirect interest in the promotion of, or in any assets which have been, within the two years immediately preceding the issue of this [REDACTED], acquired or disposed of by or leased to, any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group;
- (d) none of our Directors is materially interested in any contract or arrangement subsisting at the date of this [REDACTED] which is significant in relation to the business of our Group; and
- (e) none of the experts named in “E. Other information – 7. Qualifications of experts” in this Appendix has any shareholding 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.

### D. SHARE OPTION SCHEME

#### 1. Share Option Scheme

The following is a summary of the principal terms of the Share Option Scheme conditionally approved by the sole Shareholder on 11 May 2016.

For the purpose of this section, unless the context otherwise requires:

|                   |  |
|-------------------|--|
| “Allotment Date”  | means the date on which Shares are allotted and issued to a participant pursuant to the exercise of rights attaching to an option granted and exercised under the Share Option Scheme;   |
| “Board”           | means our board of Directors from time to time or a duly authorised committee thereof;   |
| “Eligible Person” | means, among others, any full-time or part-time employee of our Company or any member of our Group, including any executive, non-executive directors and independent non-executive directors, advisors, consultants of our Company or any of our subsidiaries; |
| “Exercise Price”  | means the exercise price for any Share under the Share Option Scheme determined by the Board;  |

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|                 |   |
|-----------------|---|
| “Option”        | means an option to subscribe for Shares granted pursuant to the Share Option Scheme;  |
| “Option Period” | means in respect of any particular Option, the period to be determined and notified by our Board to each Participant which the Board may in its absolute discretion determine, save that such period shall not be more than ten years;  |
| “Other Schemes” | means any other share option schemes adopted by our Group from time to time pursuant to which options to subscribe for Shares may be granted;   |
| “Participant”   | means any Eligible Person who accepts or is deemed to have accepted the offer of any Option in accordance with the terms of the Share Option Scheme or (where the context so permits) a person entitled to any such Option in consequence of the death of the original Participant; |
| “Shareholders”  | means shareholders of our Company from time to time;  |
| “Subsidiary”    | means a company which is for the time being and from time to time a subsidiary (within the meaning of the GEM Listing Rules) of our Company, whether incorporated in Hong Kong or elsewhere; and  |
| “Trading Day”   | means a day on which trading of Shares take place on the Stock Exchange.  |

### ***(a) Purpose of the Share Option Scheme***

The Share Option Scheme enables our Company to grant Options to Eligible Persons as incentives or rewards for their contributions to our Group.

### ***(b) Who may join***

Our Board may, at its discretion, invite any Eligible Persons to take up Options at a price calculated in accordance with sub-paragraph (d) below. Upon acceptance of the Option, the Eligible Person shall pay HK\$1.00 to our Company



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by way of consideration for the grant. The Option will be offered for acceptance for a period of not less than 5 business days from the date on which the Option is granted.

### *(c) Grant of Option*

Any grant of Options must not be made after an inside information has come to our Company’s knowledge until we have announced the information in accordance with the requirements of the GEM Listing Rules. In particular, during the period commencing one month immediately preceding the earlier of (a) the date of our Board meeting (as such date is first notified to the Stock Exchange in accordance with the GEM Listing Rules) for the approval of our Company’s results for any year, half-year, quarter-year period or any other interim period (whether or not required under the GEM Listing Rules), and (b) the deadline for our Company to publish an announcement of its results for any year, half-year, quarter-year period under the GEM Listing Rules or any other interim period (whether or not required under the GEM Listing Rules), and ending on the date of the results announcement, no Option may be granted. The period during which no Option may be granted will cover any period of delay in the publication of a result announcement.

The total number of Shares issued and to be issued upon exercise of the Options granted to a Participant under the Share Option Scheme and Other Schemes (including both exercised and outstanding Options) in any 12-month period must not exceed 1% of the Shares in issue from time to time, and provided that if approved by Shareholders in general meeting with such Participant and his close associates (or his associates if the participant is a connected person) abstaining from voting, our Company may make a further grant of Options to such Participant (the “**Further Grant**”) notwithstanding that the Further Grant would result in the Shares issued and to be issued upon exercise of all Options granted and to be granted under the Share Option Scheme and Other Schemes to such Participant (including exercised, cancelled and outstanding Options) in the 12-month period up to and including the date of the Further Grant representing in aggregate over 1% of the Shares in issue from time to time. In relation to the Further Grant, our Company must send a circular to our Shareholders, which discloses the identity of the relevant Participant, the number and the terms of the Options to be granted (and Options previously granted to such Participant under the Share Option Scheme and Other Schemes) and the information required under the GEM Listing Rules. The number and terms (including the exercise price) of Options which is the subject of the Further Grant shall be fixed before the relevant Shareholders’ meeting and the date of meeting of our Board for proposing the Further Grant should be taken as the date of grant for the purpose of calculating the Exercise Price.

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### *(d) Price of Shares*

The Exercise Price for the Shares subject to Options will be a price determined by our Board and notified to each Participant and shall be the highest of (i) the closing price of the Shares as stated in the Stock Exchange’s daily quotations sheet on the date of grant of the Options, which must be a Trading Day; (ii) the average closing price of the Shares as stated in the Stock Exchange’s daily quotations sheets for the five Trading Days immediately preceding the date of grant of the Options; and (iii) the nominal value of a Share.

For the purpose of calculating the Exercise Price, in the event that on the date of grant, our Company has been [REDACTED] for less than five Trading Days, the [REDACTED] shall be used as the closing price for any Trading Day falling within the period before the [REDACTED].

### *(e) Maximum number of Shares*

- (i) The total number of Shares which may be issued upon the exercise of all Options to be granted under the Share Option Scheme and Other Schemes must not, in aggregate, exceed 10% of the Shares in issue as at the [REDACTED] (the “**Scheme Mandate Limit**”) unless approved by the Shareholders pursuant to the terms of the Share Option Scheme. Options lapsed in accordance with the terms of the Share Option Scheme or Other Scheme will not be counted for the purpose of calculating the Scheme Mandate Limit. On the basis of [REDACTED] Shares in issue on the [REDACTED], the Scheme Mandate Limit will be equivalent to [REDACTED] Shares, representing 10% of the Shares in issue as at the [REDACTED].
- (ii) Subject to the approval of Shareholders in general meeting, our Company may renew the Scheme Mandate Limit to the extent that the total number of Shares which may be issued upon exercise of all Options to be granted under the Share Option Scheme and Other Schemes under the Scheme Mandate Limit as renewed must not exceed 10% of the Shares in issue as at the date of such Shareholders’ approval provided that Options previously granted under the Share Option Scheme and Other Schemes (including those outstanding, cancelled, exercised or lapsed in accordance with the terms thereof) will not be counted for the purpose of calculating the Scheme Mandate Limit as renewed. In relation to the Shareholders’ approval referred to in this paragraph (ii), our Company shall send a circular to our Shareholders containing the information from time to time required by the GEM Listing Rules.
- (iii) Subject to the terms of the Share Option Scheme and the approval of Shareholders in general meeting, our Company may also grant Options beyond the Scheme Mandate Limit provided that Options in excess of the Scheme Mandate Limit are granted only to Eligible Persons

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specifically identified by our Company before such Shareholders' approval is sought. In relation to the Shareholders' approval referred to in this paragraph (iii), our Company shall send a circular to our Shareholders containing a generic description of the identified Eligible Persons, the number and terms of the Options to be granted, the purpose of granting Options to the identified Eligible Persons, an explanation as to how the terms of such Options serve the intended purpose and such relevant information from time to time required by the GEM Listing Rules.

- (iv) Notwithstanding the foregoing, our Company may not grant any Options if the number of Shares which may be issued upon exercise of all outstanding Options granted and yet to be exercised under the Share Option Scheme and Other Schemes in aggregate exceeds 30% of the Shares in issue from time to time.

***(f) Time of exercise of Option***

An Option may be exercised in accordance with the terms of the Share Option Scheme at any time during the applicable option period, provided that, among others, the period within which the Option must be exercised shall not be more than 10 years from the date of the grant of Option. The exercise of an Option may be subject to the achievement of performance target and/or any other conditions to be notified by our Board to each Participant, which our Board may in its absolute discretion determine.

***(g) Rights are personal to grantee***

An Option shall be personal to the Participant and shall not be assignable or transferable and no Participant shall in any way sell, transfer, charge, mortgage, encumber or create any interest whether legal or beneficial in favour of any third party over or in relation to any Option. Any breach of the foregoing by the Participant shall entitle our Company to cancel any Option or any part thereof granted to such Participant (to the extent not already exercised) without incurring any liability on our Company.

***(h) Rights on death***

Subject to the terms of the Share Option Scheme, if a Participant dies before exercising the Options in full, his or her personal representative(s) may exercise the Options up to the Participant's entitlement (to the extent that it has become exercisable on the date of death and not already exercised) within a period of 12 months from the date of death or such longer period as the Board may determine, failing which such Options will lapse.

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### *(i) Changes in capital structure*

In the event of any alteration in the capital structure of our Company while an Option remains exercisable, and such event arises from a capitalisation of profits or reserves, rights issue, consolidation, reclassification, subdivision or reduction of share capital of our Company, such corresponding alterations (if any) shall be made in the number or nominal amount of Shares subject to the Options so far as unexercised, and/or the Exercise Price, and/or the method of exercise of the Options, and/or the maximum number of Shares subject to the Share Option Scheme.

Any adjustments required under this paragraph must give a Participant the same proportion of the equity capital as that to which that Participant was previously entitled and shall be made on the basis that the aggregate Exercise Price payable by a Participant on the full exercise of any Option shall remain as nearly as possible the same (but shall not be greater than) as it was before such event, but no such adjustments may be made to the extent that Shares would be issued at less than their nominal value and, unless with the prior approval of the Shareholders in general meeting, no such adjustments may be made to the advantage of the Participant. For the avoidance of doubt, the issue of securities as consideration in a transaction may not be regarded as a circumstance requiring adjustment. In respect of any such adjustments, other than any made on a capitalisation issue, an independent financial adviser appointed by our Company or the auditors of our Company must confirm to our Directors in writing that the adjustments satisfy the requirements of the relevant provisions of the GEM Listing Rules and the supplementary guidance set out in the letter issued by the Stock Exchange dated 5 September 2005 and any further guidance/interpretation of the GEM Listing Rules issued by the Stock Exchange from time to time.

### *(j) Rights on take-over*

If a general offer (whether by way of takeover offer as defined in the Takeovers Code or scheme of arrangement or otherwise in like manner) has been made to all our Shareholders (other than the offeror and/or any persons controlled by the offeror and/or any person acting in concert with the offeror) to acquire all or part of the issued Shares, and such offer, having been approved in accordance with applicable laws and regulatory requirements, becomes or is declared unconditional, the Participant shall be entitled to exercise his or her outstanding Option in full or any part thereof within 14 days after the date on which such offer becomes or is declared unconditional. For the purposes of this sub-paragraph, “acting in concert” shall have the meaning ascribed to it under the Takeovers Code as amended from time to time.

### *(k) Rights on a compromise or arrangement*

- (i) In the event of a notice given by our Company to our Shareholders to convene a Shareholders’ meeting for the purpose of considering and approving a resolution to voluntarily wind up our Company, our

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Company shall forthwith give notice thereof to the Participants and the Participants may, by notice in writing to our Company accompanied by the remittance for the total exercise price payable in respect of the exercise of the relevant Options (such notice to be received by our Company not later than two business days (excluding any period(s) of closure of our Company's Share registers) prior to the proposed meeting) exercise the outstanding Option either in full or in part and our Company shall, as soon as possible and in any event no later than the business day (excluding any period(s) of closure of our Company's Share registers) immediately prior to the date of the proposed Shareholders' meeting, allot and issue such number of Shares to the Participants which falls to be issued on such exercise.

- (ii) In the event of a compromise or arrangement between our Company and its members or creditors being proposed in connection with a scheme for the reconstruction or amalgamation of our Company (other than any relocation schemes as contemplated in Rule 10.18(3) of the GEM Listing Rules), our Company shall give notice thereof to all Participants on the same date as it gives notice of the meeting to its members or creditors to consider such a scheme of arrangement, and thereupon the Participants may, by notice in writing to our Company accompanied by the remittance for the total Exercise Price payable in respect of the exercise of the relevant Options (such notice to be received by our Company not later than two business days (excluding any period(s) of closure of our Company's Share registers) prior to the proposed meeting) exercise the outstanding Option either in full or in part and our Company shall, as soon as possible and in any event no later than the business day (excluding any period(s) of closure of our Company's share registers) immediately prior to the date of the proposed meeting, allot and issue such number of Shares to the Participants which falls to be issued on such exercise credited as fully paid and registered the Participants as holders thereof.

### ***(l) Lapse of Option***

An Option shall lapse forthwith and not exercisable (to the extent not already exercised) on the earliest of:

- (i) the expiry of the Option Period;
- (ii) subject to paragraphs (f), (h), (j), (k) and (p) and the terms of the Share Option Scheme, the expiry of the Option Period of the Option;
- (iii) subject to paragraph (k)(i), the date of commencement of the winding-up of our Company;
- (iv) the date when the proposed compromise or arrangement becomes effective in respect of the situation contemplated in paragraph (k)(ii);

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- (v) in the event that the Participant was an employee or director of any member of our Group on the date of grant of Option to him or her, the date on which such member of our Group terminates the Participant's employment or removes the Participant from his or her office on the ground that the Participant has been guilty of misconduct, has committed an act of bankruptcy or has become insolvent or has made any arrangements or composition with his or her creditors generally, or has been convicted of any criminal offence involving his or her integrity or honesty. A resolution of our Board or the board of directors of the relevant member of our Group to the effect that such employment or office has or has not been terminated or removed on one or more grounds specified in this sub-paragraph shall be conclusive;
- (vi) the happening of any of the following events, unless otherwise waived by our Board:
  - (1) any liquidator, provisional liquidator, receiver or any person carrying out any similar function has been appointed anywhere in the world in respect of the whole or any part of the asset or undertaking of the Participant (being a corporation); or
  - (2) the Participant (being a corporation) has ceased or suspended payment of its debts or otherwise become insolvent or is subject to any winding-up, liquidation or analogous proceedings or has made any arrangement or composition with its creditors generally; or
  - (3) there is unsatisfied judgment, order or award outstanding against the Participant or our Company has reason to believe that the Participant is unable to pay or has no reasonable prospect of being able to pay his/her/its debts; or
  - (4) there are circumstances which entitle any person to take any action, appoint any person, commence proceedings or obtain any order of type mentioned in sub-paragraphs (1), (2) and (3) above; or
  - (5) a bankruptcy order has been made against the Participant or any director of the Participant (being a corporation) in any jurisdiction; or
  - (6) a petition for bankruptcy has been presented against the Participant or any director of the Participant (being a corporation) in any jurisdiction; or
- (vii) the date on which a situation as contemplated under paragraph (g) arises;

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- (viii) the date the Participant commits any breach of any terms or conditions attached to the grant of the Option, unless otherwise resolved to the contrary by our Board; or
- (ix) the date on which our Board resolves that the Participant has failed or otherwise is or has been unable to meet the continuing eligibility criteria as may be prescribed in accordance with the terms of the Share Option Scheme.

***(m) Ranking of Shares***

Shares allotted and issued upon the exercise of an Option will be subject to the provisions of our Memorandum and Articles of Association in force as at the Allotment Date and will rank *pari passu* in all respects with the existing fully paid Shares in issue on the Allotment Date and accordingly will entitle the holders to participate in all dividends or other distributions paid or made on or after the Allotment Date other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefor shall be on or before the Allotment Date. Any Share allotted upon the exercise of the Option shall not carry voting rights until the name of the Participant has been duly entered into the register of members of the Company as the holder thereof.

***(n) Cancellation of Options granted***

Any cancellation of Options granted in accordance with the Share Option Scheme but not exercised must be approved by the Participant concerned in writing.

In the event that our Board elects to cancel any Options and issue new ones to the same Participant, the issue of such new Options may only be made with available unissued Shares in the authorised share capital of our Company and available ungranted Options (excluding the cancelled Options) within the Scheme Mandate Limit.

***(o) Period of Share Option Scheme***

The Share Option Scheme will be valid and effective for a period of ten years commencing on the [REDACTED], after which period no further Options may be granted but the provisions of the Share Option Scheme shall remain in full force and effect in all other respects and Options granted during the life of the Share Option Scheme may continue to be exercisable in accordance with their terms of issue.

***(p) Alteration to and termination of Share Option Scheme***

The Share Option Scheme may be altered in any respect by resolution of our Board, except that the provisions of the Share Option Scheme relating to matters contained in Rule 23.03 of the GEM Listing Rules (or any other relevant



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provisions of the GEM Listing Rules from time to time applicable) shall not be altered to the advantage of the Participants or prospective Participants without the prior approval of our Shareholders in general meeting (with the Eligible Persons, the Participants and their respective close associates abstaining from voting). No such alteration shall operate to affect adversely the terms of issue of any Option granted or agreed to be granted prior to such alteration except with the consent or sanction in writing of such majority of the Participants as would be required by our Shareholders under our Memorandum and Articles of Association for a variation of the rights attached to the Shares.

Any alterations to the terms and conditions of the Share Option Scheme, which are of a material nature shall first be approved by the Shareholders in general meeting, except where such alterations take effect automatically under the existing terms of the Share Option Scheme.

Our Company may, by ordinary resolution in general meeting or the Board may, at any time terminate the operation of the Share Option Scheme before the end of its life and in such event, no further Options will be offered but the provisions of the Share Option Scheme shall remain in all other respects in full force and effect in respect of Options granted prior thereto but not yet exercised at the time of termination, which shall continue to be exercisable in accordance with their terms of grant. 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 termination must be disclosed in the circular to our Shareholders seeking approval for the first new scheme to be established after such termination.

***(q) Granting of Options to a director, chief executive or substantial shareholder of our Company or any of their respective associates***

Where Options are proposed to be granted to a director, chief executive or substantial shareholder of our Company or any of their respective associates, the proposed grant must be approved by the independent non-executive Directors (excluding any independent non-executive Director who is the proposed Participant).

If a grant of Options to a substantial shareholder of our Company or an independent non-executive Director, or any of their respective associates will result in the total number of the Shares issued and to be issued upon exercise of the Options granted and to be granted (including Options exercised, cancelled and outstanding) to such person in any 12-month period up to and including the date of the grant (i) representing in aggregate over 0.1% (or such other percentage as may from time to time specified by the Stock Exchange) of the Shares in issue, and (ii) having an aggregate value, based on the closing price of the Shares at the date of the grant, in excess of HK\$5 million, then the proposed grant of Options must be approved by our Shareholders on a poll in a general meeting. The Participant, his associates and all core connected persons of our Company must



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abstain from voting in favour at such general meeting. Our Company will send a circular to our Shareholders containing the information required under the GEM Listing Rules.

In addition, Shareholders' approval as described above will also be required for any change in terms of the Options granted to a Participant who is a substantial shareholder of our Company, an independent non-executive Director or any of their respective associates.

The circular must contain the following:

- (i) details of the number and terms of the Options (including the Exercise Price relating thereto) to be granted to each Eligible Person, which must be fixed before the relevant Shareholders' meeting, and the date of Board meeting for proposing such further grant is to be taken as the date of grant for the purpose of calculating the Exercise Price;
- (ii) a recommendation from our independent non-executive Directors (excluding any independent non-executive Director who is a proposed Participant) to independent Shareholders, as to voting; and
- (iii) all the information as required by the GEM Listing Rules from time to time.

For the avoidance of doubt, the requirements for the granting of Options to a Director or chief executive (as defined in the GEM Listing Rules) of our Company set out in this paragraph (q) do not apply where the Eligible Person is only a proposed Director or proposed chief executive of our Company.

***(r) Conditions of Share Option Scheme***

The Share Option Scheme is conditional on (i) the passing of a resolution to adopt the Share Option Scheme by our Shareholders in general meeting; and (ii) the Stock Exchange granting approval for the [REDACTED] of and permission to deal in the Shares which may be issued and allotted pursuant to the exercise of Options.

Application has been made to the Stock Exchange for the [REDACTED] of and permission to deal in the Shares which fall to be issued pursuant to the exercise of Options that may be granted under Share Option Scheme.

***(s) Present status of the Share Option Scheme***

As at the Latest Practicable Date, no options had been granted or agreed to be granted by our Company under the Share Option Scheme.

The terms of the Share Option Scheme are in compliance with Chapter 23 of the GEM Listing Rules.

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### E. OTHER INFORMATION

#### 1. Tax and other indemnities

Each of our Controlling Shareholders (collectively, the “**Indemnifiers**”) has entered into the Deed of Indemnity (being the material contract referred to in “B. Further information about the business of our Group – 1. Summary of material contracts – (b) the Deed of Indemnity” in this Appendix) with and in favour of our Company (for ourselves and as trustee for each of our subsidiaries) to provide indemnities on a joint and several basis in respect of, among other matters:

- (a) any taxation (which includes estate duty) or taxation claim in whatever part of the world which might be payable by any member of our Group resulting from or by reference to any income, profits or gains earned, accrued or received on or up to the date on which the conditions stated in the section headed “Structure and conditions of the [REDACTED] – The structure of the [REDACTED] – Conditions of the [REDACTED]” in this [REDACTED] being fulfilled (the “**Effective Date**”) or arising from the reorganisation of our Group described in the section headed “History, Reorganisation and corporate structure – Reorganisation” in this [REDACTED] on or before the Effective Date whether alone or in conjunction with any circumstances whenever occurring and whether or not such taxation or taxation claim is chargeable against or attributable to any other person, firm or company, save to the extent that:
  - (i) provision or reserve has been made for such taxation in the audited accounts of our Group for the three years ended 31 December 2015 (the “**Accounts**”) as set out in Appendix I to this [REDACTED] and to the extent that such taxation is incurred or accrued since 1 January 2016 which arises in the ordinary course of business of our Group as described in the section headed “Business” in this [REDACTED];
  - (ii) such taxation or taxation claim falls on any member of our Group in respect of its accounting period commencing on or after 1 January 2016 unless such taxation or liability would not have arisen but for some act or omission of, or transactions voluntarily effected by, the Indemnifiers, any member of our Group (whether alone or in conjunction with some other act, omission or transaction, whenever occurring) otherwise than in the ordinary course of business or in the ordinary course of acquiring and disposing of capital assets, before the Effective Date;
  - (iii) such taxation claim or liability for such taxation would not have arisen but for a voluntary act or transaction carried out or effected (other than pursuant to a legally binding commitment created on or before the date of the Deed of Indemnity) by the relevant member of our Group after the date of the Deed of Indemnity;

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- (iv) such taxation claim or liability for such taxation arises or is incurred as a result of the imposition of taxation as a consequence of any retrospective change in the law, rules and regulations, or the interpretation or practice thereof by the Inland Revenue Department of Hong Kong or the taxation authority of the PRC or any other relevant authority (whether in Hong Kong or the PRC, or the Cayman Islands, or any other part of the world) coming into force after the date of the Deed of Indemnity or to the extent such taxation claim arises or is increased by an increase in rates of taxation after the date of the Deed of Indemnity with retrospective effect; or
  - (v) any provisions or reserve made for taxation in the Accounts and which is finally established to be an over-provision or an excessive reserve in which case the Indemnifiers’ liability (if any) in respect of such taxation shall be reduced by an amount not exceeding such provision or reserve, provided that the amount of any such provision or reserve applied pursuant to the Deed of Indemnity to reduce the Indemnifiers’ liability in respect of taxation shall not be available in respect of any such liability arising thereafter; and
- (b) any damages, losses, liabilities, claims, fines, penalties, orders costs (including all legal costs) and expenses, or loss of profits, benefits which are or become payable or suffered by any member of our Group directly or indirectly as a result of and in connection with the incidents referred to in the section headed “Business – Legal compliance and proceedings” in this [REDACTED].

Our Directors have been advised that no material liability for estate duty is likely to fall on our Company or any of its subsidiaries in the Cayman Islands or the BVI or Hong Kong, being jurisdictions in which one or more of the companies comprising our Group were incorporated.

### 2. Litigation

Save as disclosed in the section headed “Business – Legal compliance and proceedings” in this [REDACTED], neither our Company nor any of our subsidiaries is engaged in any litigation or claims of material importance and no litigation or claims of material importance is known to our Directors to be pending or threatened by or against our Company or any of our subsidiaries, that would have a material adverse effect on our Group’s results of operations or financial condition.

### 3. Sole Sponsor

Our Sole Sponsor has made an application for and on behalf of our Company to the Stock Exchange for the [REDACTED] of, and permission to deal in, the Shares in issue and to be issued as mentioned in this [REDACTED], including the [REDACTED] and any Shares which may fall to be allotted and issued pursuant to the Capitalisation Issue and the exercise of any options which may be granted under the Share Option Scheme.

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### 4. Compliance adviser

In accordance with the requirements of the GEM Listing Rules, our Company has appointed Kingston Corporate Finance Limited as compliance adviser to provide advisory services to our Company to ensure compliance with the GEM Listing Rules for a period commencing on the [REDACTED] and ending on the date on which our Company complies with Rule 18.03 of the GEM Listing Rules in respect of its financial results for the second full financial year commencing after the [REDACTED] or until the agreement is terminated, whichever is the earlier.

### 5. Preliminary expenses

The preliminary expenses relating to the incorporation of our Company are approximately HK\$109,000 and are payable by our Company.

### 6. Promoter

Our Company has no promoter.

### 7. Qualifications of experts

The qualifications of the experts who have given reports, letter or opinions (as the case may be) in this [REDACTED] are as follows:

| Name  | Qualification   |
|---|---|
| Kingston Corporate Finance Limited                      | A corporation licensed to carry out type 6 (advising on corporate finance) regulated activity under the SFO |
| Deloitte Touche Tohmatsu                                | Certified Public Accountants  |
| DLA Piper Hong Kong                                     | Legal advisers to our Company as to International Sanctions Laws  |
| TC & Co.  | Legal advisers to our Company as to Hong Kong law   |
| JunZeJun Law Offices                                    | Legal advisers to our Company as to PRC law   |
| Appleby   | Legal advisers to our Company as to Cayman Islands law  |
| Frost & Sullivan (Beijing) Inc.,<br>Shanghai Branch Co. | Industry consultant   |

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### 8. Consents of experts

Each of the experts referred to above has given and has not withdrawn its written consent to the issue of this [REDACTED] with the inclusion of its reports, letters, opinions or summaries thereof (as the case may be) and the references to its name included in this [REDACTED] in the form and context in which it respectively appears.

### 9. Sole Sponsor’s fees

Our Sole Sponsor will be paid by our Company a total fee of HK\$3 million to act as sponsor to our Company in connection with the [REDACTED].

### 10. Binding effect

This [REDACTED] shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

### 11. Miscellaneous

- (a) Save as disclosed in this Appendix and the sections headed “History, Reorganisation and corporate structure” and “Underwriting” in this [REDACTED], within the two years preceding the date of this [REDACTED]:
  - (i) no share or loan capital of our Company or any of our subsidiaries has been issued, agreed to be issued or is proposed to be issued fully or partly paid either for cash or for a consideration other than cash;
  - (ii) no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of our Company or any of our subsidiaries; and
  - (iii) no commission has been paid or payable (excluding commission payable to sub-underwriters) for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any shares in our Company.
- (b) No share or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option.
- (c) No founder, management or deferred shares of our Company or any of our subsidiaries has been issued or agreed to be issued.
- (d) Our Directors confirm that, up to the date of this [REDACTED], save as disclosed in the section headed “Summary – No material adverse change” in this [REDACTED], there has been no material adverse change in the

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financial or trading position or prospects of our Group since 31 December 2015 (being the date to which the latest audited consolidated financial statements of our Group were made up), and there had been no event since 31 December 2015 which would materially affect the information as shown in the accountants’ report set out in Appendix I to this [REDACTED].

- (e) There has not been any interruption in the business of our Group which has had a material adverse effect on the financial position of our Group in the 24 months preceding the date of this [REDACTED].
- (f) None of Kingston Corporate Finance Limited, Deloitte Touche Tohmatsu, DLA Piper Hong Kong, TC & Co., JunZeJun Law Offices, Appleby and Frost & Sullivan (Beijing) Inc., Shanghai Branch Co.:
  - (i) is interested beneficially or non-beneficially in any shares in any member of our Group; or
  - (ii) has any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any shares in any member of our Group.
- (g) No company within our Group is presently listed on any stock exchange or traded on any trading system.
- (h) Our Company has no outstanding convertible debt securities.
- (i) All necessary arrangements have been made to enable the Shares to be admitted into CCASS for clearing and settlement.
- (j) There are no arrangements under which future dividends are waived or agreed to be waived.

### 12. Taxation of holders of Shares

#### (a) *Hong Kong*

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

Profits from dealings in Shares arising in or derived from Hong Kong may also be subject to Hong Kong profits tax.

#### (b) *Cayman Islands*

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

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*(c) Consultation with professional advisers*

Intending holders of the Shares are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of or dealing in the Shares. It is emphasised that none of our Company, our Directors or parties involved in the [REDACTED] accepts responsibility for any tax effect on, or liabilities of holders of Shares resulting from their subscription for, purchase, holding or disposal of or dealing in Shares.

The documents attached to the copy of this [REDACTED] delivered to the Registrar of Companies in Hong Kong for registration were the written consents referred to in the section headed “E. Other information – 8. Consents of experts” in Appendix IV to this [REDACTED] and copies of the material contracts referred to in the section headed “B. Further information about the business of our Group – 1. Summary of material contracts” in Appendix IV to this [REDACTED].

1. the Memorandum and the Articles of Association;
2. the accountants' report on financial information of our Group for each of the three years ended 31 December 2015 prepared by Deloitte Touche Tohmatsu, the text of which is set out in Appendix I to this [REDACTED];
3. the auditor's report on the consolidated financial statements of our Group underlying the financial information of our Group incorporated in the accountants' report;
4. the report received from Deloitte Touche Tohmatsu on the unaudited pro forma financial information of our Group, the text of which is set out in Appendix II to this [REDACTED];
5. the legal opinion prepared by TC & Co., the legal advisers to our Company as to Hong Kong law, in respect of certain aspects of our Group;
6. the legal opinion prepared by JunZeJun Law Offices, the legal advisers to our Company as to PRC law, in respect of certain aspects of our Group;
7. the letter of advice prepared by Appleby summarising certain aspects of the Cayman Islands company law referred to in Appendix III to this [REDACTED];
8. the legal memorandum issued by DLA Piper Hong Kong relating to certain International Sanctions Laws;
9. the Companies Law;
10. copies of material contracts referred to in the section headed "B. Further information about the business of our Group – 1. Summary of material contracts" in Appendix IV to this [REDACTED];



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**APPENDIX V** **DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG AND AVAILABLE FOR INSPECTION**

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11. the service agreements and letters of appointment referred to in the paragraph headed “C. Further information about directors, management and staff – 1. Directors” in Appendix IV to this [REDACTED];
12. the written consents referred to the section headed “E. Other information – 8. Consents of experts” in Appendix IV to this [REDACTED];
13. the Share Option Scheme; and
14. the Frost & Sullivan Report.