

HANVEY GROUP HOLDINGS LIMITED 恆偉集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 8219



BY WAY OF
SHARE OFFER

SOLE SPONSOR



TC CAPITAL

JOINT BOOKRUNNERS



首盛資本集團
Alpha Financial Group



藍山金融

JOINT LEAD MANAGERS



首盛資本集團
Alpha Financial Group



藍山金融



ASTRUM



駿昇 証券有限公司
Quasar Securities Co., Limited



TC CAPITAL

IMPORTANT

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

HANVEY GROUP HOLDINGS LIMITED 恆偉集團控股有限公司

(incorporated in the Cayman Islands with limited liability)

LISTING BY WAY OF SHARE OFFER ON THE GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED

Number of Offer Shares : 250,000,000 Shares
Number of Placing Shares : 225,000,000 Shares (subject to reallocation)
Number of Public Offer Shares : 25,000,000 Shares (subject to reallocation)
Offer Price : Not more than HK\$0.27 per Offer Share and expected to be not less than HK\$0.23 per Offer Share, plus brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars and subject to refund)
Nominal value : HK\$0.01 each
Stock code : 8219

Sole Sponsor



Joint Bookrunners



Joint Lead Managers



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

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

The Offer Price is expected to be fixed by agreement between the Joint Bookrunners (for themselves and on behalf of the other Underwriters) and our Company on the Price Determination Date, which is expected to be on or before Thursday, 5 July 2018. The Offer Price will not be more than HK\$0.27 per Offer Share and is currently expected to be not less than HK\$0.23 per Offer Share. If, for any reason, the Offer Price is not agreed by Thursday, 5 July 2018 between Joint Bookrunners (for themselves and on behalf of the other Underwriters) and our Company, the Share Offer will not proceed and will lapse. In the case of such event, a notice will be published on the website of the Stock Exchange at www.hkexnews.hk and our Company's website at www.hanveygroup.com.hk.

The Joint Bookrunners (for themselves and on behalf of the other Underwriters) may, with our consent, reduce the indicative Offer Price range stated in this prospectus (which is HK\$0.23 to HK\$0.27 per Offer Share) at any time on or prior to the morning of the last day for lodging applications under the Public Offer. In such a case, notices of the reduction in the indicative Offer Price range will be published on the website of the Stock Exchange at www.hkexnews.hk and our Company's website at www.hanveygroup.com.hk not later than the morning of the day which is the last day for lodging applications under the Public Offer. If applications for the Public Offer Shares have been submitted prior to the day which is the last day for lodging applications under the Public Offer, such applications cannot be subsequently withdrawn even if the number of Offer Shares in the Share Offer and/or the indicative Offer Price range is so reduced.

Prior to making an investment decision, prospective investors should carefully consider all the information set out in this prospectus, including but not limited to the section headed "Risk Factors" of this prospectus.

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

The Offer Shares have not been and will not be registered under the U.S. Securities Act or any state securities law in the United States and may not be offered, sold, pledged or transferred within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and applicable US state securities laws. The Offer Shares are being offered and sold outside the United States in reliance on Regulation S under the U.S. Securities Act and the applicable laws of each jurisdiction where those offers and sales occur.

28 June 2018

CHARACTERISTICS OF GEM

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspaper. Accordingly, prospective investors should note that they need to have access to the Stock Exchange's website at www.hkexnews.hk in order to obtain up-to-date information on GEM-listed issuers.

EXPECTED TIMETABLE^(Note 1)

If there is any change in the following expected timetable of the Share Offer, we will issue an announcement on the website of our Company at www.hanveygroup.com.hk and the website of the Stock Exchange at www.hkexnews.hk.

Public Offer commences and **WHITE** and **YELLOW**

Application Forms available from 9:00 a.m.
on Thursday, 28 June 2018

Application lists for Public Offer open (Note 2) 11:45 a.m.
on Wednesday, 4 July 2018

Latest time for lodging **WHITE** and **YELLOW** Application

Forms 12:00 noon
on Wednesday, 4 July 2018

Latest time to give **electronic application instructions** to

HKSCC (Note 3) 12:00 noon
on Wednesday, 4 July 2018

Application lists for Public Offer close (Note 2). 12:00 noon
on Wednesday, 4 July 2018

Expected Price Determination Date on or before (Note 4). Thursday, 5 July 2018

Announcement of the final Offer Price, the indication of the levels of interest in the Placing, the levels of applications of the Public Offer, the basis of allotment and the results of applications in the Public Offer to be published in our Company's website at www.hanveygroup.com.hk and the website of the Stock Exchange at www.hkexnews.hk on or before Wednesday, 11 July 2018

Announcement of results of allocations in the Public Offer (with successful applicants' identification document numbers, where appropriate) to be available through a variety of channels including our Company's website at www.hanveygroup.com.hk and the website of the Stock Exchange at www.hkexnews.hk (for further details, please see the section headed "How to apply for the Public Offer Shares – 10. Publication of results" in this prospectus) on or before Wednesday, 11 July 2018

Results of allocations in the Public Offer will be available at www.tricor.com.hk/ipo/result with a "search by ID Number/Passport/Business Registration Number" function on Wednesday, 11 July 2018

EXPECTED TIMETABLE ^(Note 1)

Despatch/collection of refund cheques in respect of wholly or partially unsuccessful applications (if applicable) pursuant to the Public Offer on or before (Notes 5 to 6). Wednesday, 11 July 2018

Despatch/collection of share certificates and/or deposit of the share certificates into CCASS in respect of wholly or partially successful applications pursuant to the Public Offer on or before (Notes 6 to 7) Wednesday, 11 July 2018

Dealings in Shares on GEM expected to commence at 9:00 a.m. on Thursday, 12 July 2018

Notes:

1. All times and dates refer to Hong Kong local time, except as otherwise stated. Details of the structure of the Share Offer, including its conditions, are set out in the section headed “Structure and Conditions of the Share Offer” in this prospectus.
2. If there is a “black” rainstorm warning or a tropical cyclone warning signal number 8 or above in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Wednesday, 4 July 2018, the application lists will not open on that day. For further details, please see the paragraph headed “How to Apply for the Public Offer Shares – 9. Effect of bad weather on the opening and closing of the application lists” in this prospectus.
3. Applicants who apply for the Public Offer Shares by giving **electronic application instructions** to HKSCC via CCASS should refer to the paragraph headed “How to Apply for the Public Offer Shares – 5. Applying by giving **electronic application instructions** to HKSCC via CCASS” in this prospectus.
4. The Price Determination Date is expected to be on or before Thursday, 5 July 2018. If, for any reason, the final Offer Price is not agreed on or before Thursday, 5 July 2018 between our Company and the Joint Bookrunners (for themselves and on behalf of the other Underwriters), the Share Offer will not proceed and will lapse accordingly.
5. Refund cheques will be issued in respect of wholly or partially unsuccessful applications, and in respect of successful applications if the Offer Price as finally determined is less than the price payable on application. Refund by cheque(s) will be made out to you, or if you are joint applicants, to the first-named applicant on your Application Form. Part of your Hong Kong identity card number/passport number, or, if you are joint applicants, part of the Hong Kong identity card number/passport number of the first-named applicant provided by you may be printed on your refund cheque, if any. Such data may also be transferred to a third party for refund purposes. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque, if any. Inaccurate completion of your Hong Kong identity card number/passport number may lead to a delay in encashment of, or may invalidate, your refund cheque.
6. Applicants who apply on **WHITE** Application Forms for 1,000,000 Shares or more under the Public Offer and have provided all information required by their Application Forms, they may collect their refund cheques and (where applicable) share certificates in person from the Hong Kong Branch Share Registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong from 9:00 a.m. to 1:00 p.m. on Wednesday, 11 July 2018. Applicants being individuals who opt for personal collection must not authorize any other person to make collection on their behalf. Applicants being corporations who opt for personal collection must attend by their authorised representatives bearing a letter of authorisation from their corporation stamped with the corporation’s chop. Both individuals and authorised representatives of corporations must produce, at the time of collection, identification and (where applicable) authorisation documents acceptable to the Hong Kong Branch Share Registrar.

EXPECTED TIMETABLE^(Note 1)

Applicants who apply on **YELLOW** Application Forms for 1,000,000 Shares or more under the Public Offer and have provided all information required by Application Forms, they may collect their refund cheques (if any) but may not elect to collect their share certificates, which will be deposited into CCASS for credit to their designated CCASS Participants' stock accounts or CCASS Investor Participant stock accounts, as appropriate. The procedure for collection of refund cheques for applicants who apply on **YELLOW** Application Forms is the same as that for **WHITE** Application Form applicants.

Uncollected share certificates (if applicable) and refund cheques (if applicable) will be despatched by ordinary post (at the applicants' own risk) to the addresses specified in the relevant Application Forms shortly after the expiry of the time for collection at the date of despatch of refund cheque as described in the paragraph headed "How to Apply for the Public Offer Shares – 13. Despatch/collection of share certificates and refund monies" in this prospectus.

7. Share certificates for the Public Offer Shares are expected to be issued on or before Wednesday, 11 July 2018 but will only become valid certificates of title at 8:00 a.m. on Thursday, 12 July 2018 provided that (a) the Share Offer has become unconditional in all respects; and (b) the Underwriting Agreements have not been terminated in accordance with its terms.

For further details of the structure and conditions of the Share Offer, you should refer to the section headed "Structure and conditions of the Share Offer" in this prospectus.

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This prospectus is issued by our Company solely in connection with the Share Offer and does not constitute an offer to sell or a solicitation of an offer to buy any securities other than the Offer Shares offered by this prospectus pursuant to the Share Offer. This prospectus 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 circumstances.

You should rely only on the information contained in this prospectus to make your investment decision. Our Company, the Sponsor, the Joint Bookrunners, the Joint Lead Managers and the Underwriters have not authorised anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not made in this prospectus must not be relied on by you as having been authorised by our Company, the Sponsor, the Joint Bookrunners, the Joint Lead Managers, any of the Underwriters, any of our or their respective affiliates, directors, officers, employees, agents or representatives, or any other person or party involved in the Share Offer.

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SUMMARY

This summary aims to give you an overview of the information contained in this prospectus. As this is a summary, it does not contain all the information that may be important to you and is qualified in its entirety by, and should be read in conjunction with, the full text in this prospectus. You should read this prospectus in its entirety before you decide to invest in the Offer Shares.

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

OVERVIEW

Our Group principally engages in design and development, manufacturing and distribution of watch products on an ODM basis with our head office in Hong Kong and production facilities in the PRC. Since August 2017, we have also commenced distributing watches under our own brand “Grandber” which accounted for approximately 1.0% of our total revenue for the year ended 31 December 2017.

Our business model

Under our ODM business model, we provide our ODM customers with various watch designs developed by our in-house design team from time to time in accordance with their conceptual ideas and needs. Once the designs, specifications and order details are confirmed by our ODM customers, we procure necessary watch parts and components from our suppliers and assemble watches either by ourselves in our production plant or by our subcontractors in the PRC. In general, our products will be delivered by us to the customers’ freight forwarding offices in Hong Kong and the title and risk of the products will be passed to the customers at the same time. The business model of our branded product business is similar to our ODM business in all material aspects except that we do not have to seek approval from the relevant customers on the design of our branded products and we outsource the assembly process of our branded product to a subcontractor in Switzerland and we distribute our branded product under our own trademarks. We generally determine our price of products at cost-plus basis.

Our products

During the Track Record Period, most of our revenue was generated from the sales of finished watches. We also deliver our products to our ODM customers in the form of SKD Kits and our ODM customers shall assemble the watch parts by themselves. Our ODM customers may also order a small quantity of watch parts and components from us as spare parts for their

SUMMARY

provision of after-sales services to their customers. The table below sets out the breakdown of our revenue, sales volume, gross profit margin and average selling price by form of watch products for the Track Record Period:

	Year ended 31 December									
	2016					2017				
	HK\$'000	% of total	pieces	Average selling price in HK\$	GP%	HK\$'000	% of total	pieces	Average selling price in HK\$	GP%
Finished watches ^{Note}	120,177	79.1	661,009	181.8	32.1	130,799	74.8	711,788	183.8	29.7
SKD Kits	28,895	19.0	192,472	150.1	30.7	41,515	23.7	272,781	152.2	27.0
Watch parts	2,820	1.9	196,707	14.3	34.3	2,504	1.4	190,967	13.1	40.2
	<u>151,892</u>	<u>100.0</u>	<u>-</u>	<u>-</u>	<u>31.8</u>	<u>174,817</u>	<u>100.0</u>	<u>-</u>	<u>-</u>	<u>29.2</u>

Note: For the year ended 31 December 2017, the revenue of our finished watches segment included the revenue generated from the sales of our branded products of approximately HK\$1.8 million.

Despite the increase in the average selling price of our finished watches and SKD Kits during the Track Record Period, the gross profit margin of our finished watches and SKD Kits decreased in the same period principally due to the decrease in the gross profit margin of our sales to Customer A and Customer B in the same year, which was principally resulted from (i) our acceptance of an unanticipated request by Customer A to change to a relatively higher quality electro-plating service provider after we confirmed a series of sales orders with Customer A by the end of the year ended 31 December 2016 and hence a relatively higher cost we incurred for the procurement of its service for the year ended 31 December 2017 but we did not fully pass the increased costs to Customer A in view of our long term business relationship with it; and (ii) our acceptance of a purchase order of more complex models in a relatively large quantity by Customer B but we did not increase the relevant selling price during our negotiation of the terms of sales order with Customer B in view of our long term business relationship with it and the relatively larger size of order quantities. Our gross profit margins for each order shall be determined on case by case basis due to factors such as our relationships with our customers, technical complexity of watch designs, delivery schedule required by our customers, and therefore varies from order to order. For details, please refer to the section headed “Financial information – Period to period comparison of results of operations – Year ended 31 December 2017 compared to year ended 31 December 2016 – Gross profit and gross profit margin”.

The suggested retail price of our branded watches ranges from approximately HK\$17,000 to approximately HK\$20,000 during the Track Record Period. Our branded watches are labelled as “Swiss Made” as we outsource the assembly process of our branded watches to a subcontractor in Switzerland and we have obtained certificate of origin for our branded products issued by the chamber of commerce in Switzerland and hence our Directors are of the view that our Group has complied with the relevant requirement for labelling our branded products as such.

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Our production plant

Our existing production plant is leased and located on the 5th floor, Building No. 9, Zhengzhong Technology Park, Dayang Community, Baoan District, Shenzhen City, Guangdong Province, the PRC. For each of the two years ended 31 December 2017, our in-house theoretical maximum production capacities were approximately 510,000 pieces and 510,000 pieces of finished watches respectively and the utilization rates of our production capacity were approximately 91.2% and 83.9% respectively. Such decrease was principally due to the relocation of our production plant in June 2017 and therefore we outsourced more our orders to our subcontractors for assembling around that time. Such relocation did not have material impact on our in-house theoretical maximum production capacities of finished watches as the relocation was completed within a week. Due to the tenancy agreement in respect to our existing leased production plant shall expire on 31 August 2020 and we were informed by the lessor that such tenancy agreement would not be renewed upon expiration, we plan to spend a total of approximately HK\$22.8 million or 63.9% of the net proceeds of the Share Offer to acquire a new production plant and relocate from our existing production plant to the new production plant in the second half year of 2019. We expect the relocation will be completed within a week and shall not lead to material interruption of our production as well as our in-house theoretical maximum production capacities based on our recent experience of relocation in June 2017.

Our sales and marketing

We have been participating as an exhibitor in Baselworld in Basel, Switzerland annually since 1989 and in Watch and Clock Fair in Hong Kong annually since 1999 to reach our potential new customers and our existing customers worldwide. During the Track Record Period, we also engaged a German company as our Group's sales representative to provide sales related services to our Group for customers mainly located in Europe and Australia. We also pay sales commission to our connected person for its provision of sales related services to us for our customers in Iran and Brazil. We also reach our potential e-commerce customers by our company website and referral from our existing customers. We also engaged a Hong Kong celebrity as the spokesperson for our branded watches in August 2017 to attract potential customers and increase our brand recognition. For details, please refer to the section headed "Business – Sales and marketing" in this prospectus.

Customers

Our ODM customer are watch brand owners which distribute their watch products either directly (through their retail sales channels) or indirectly (through other watch distributors) to the end consumers. The customers of our branded products are watch distributors. We are not exclusive supplier of our customers. Our customers are located around the world in particular in Hong Kong, Brazil, UAE, Turkey and EU, each of which accounted for over 5.0% of our total revenue in any of the years during the Track Record Period and altogether accounted for 81.1%

SUMMARY

and 81.7% of our total revenue during the Track Record Period respectively. Set out below is a breakdown of our revenue by locations of our customers during the Track Record Period:

	Year ended 31 December			
	2016		2017	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Hong Kong <i>Note 1</i>	62,940	41.4	79,876	45.7
Brazil	20,513	13.5	31,755	18.2
UAE	7,108	4.7	9,842	5.6
Turkey	8,173	5.4	4,030	2.3
Others <i>Note 2</i>	53,158	35.0	49,134	28.2
	<u>151,892</u>	<u>100.0</u>	<u>174,817</u>	<u>100.0</u>

Notes:

1. For the year ended 31 December 2017, we recorded a total sales amount of approximately HK\$1.8 million for our branded products from customers located in Hong Kong.
2. Others include Armenia, Australia, Austria, Bangladesh, Belgium, Bulgaria, PRC, Colombia, Czech Republic, Denmark, Finland, France, Germany, Greece, Netherlands, Hungary, India, Iran, Ireland, Israel, Italy, Malaysia, Mexico, New Zealand, Norway, Philippine, Poland, Portugal, Russia, Saudi Arabia, Singapore, Slovak Republic, South Africa, Spain, Sweden, Switzerland, Thailand, United Kingdom and United States. For the two years ended 31 December 2017, our revenue generated from EU was approximately HK\$24.5 million and HK\$17.3 million and accounted for approximately 16.1% and 9.9% of our total revenue respectively.

The total revenue attributable to our five largest customers for each of the two years ended 31 December 2017 accounted for approximately 54.5% and 60.4%, respectively, while our largest customer accounted for approximately 30.0% and 29.4%, respectively. We have maintained business relationship with our five largest customers during the Track Record Period for a period ranging from approximately 3 to 10 years. All of them are Independent Third Parties. Please refer to the section headed “Business – Sales and marketing – Major customers” for further details of our major customers during the Track Record Period.

Suppliers

We source the watch parts and related services from various suppliers who are generally Hong Kong companies either with their own production facilities in the PRC or cooperate with other companies with production facilities in the PRC. For each of the two years ended 31 December 2017, the percentage of purchase from our largest supplier for each respective period accounted for approximately 12.1% and 13.0% of our total purchases, respectively and the percentage of purchase from our five largest suppliers accounted for approximately 41.7% and 40.8%. Our five largest suppliers during the Track Record Period have maintained business relationship with us for a period ranging from approximately 1 to 17 years. All of them are

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Independent Third Parties. Please refer to the section headed “Business – Procurement – Major suppliers” for further details of our major suppliers during the Track Record Period.

Subcontractors

Depending on a number of factors including fee quoted by the subcontractors and the complexity of the assembly process, we may outsource the watch assembly process to subcontractors located in the PRC. We also outsource the assembly process of our branded watches to a subcontractor in Switzerland. We had engaged four subcontractors for watch assembly during the Track Record Period. All of them are Independent Third Parties. Set out below the breakdown of sales volume and revenue generated from finished watch segment contributed by the products assembled by our in-house production plant and by our subcontractors:

	Year ended 31 December					
	2016			2017		
	<i>Pieces</i>	<i>HK\$'000</i>	<i>% of total</i>	<i>Pieces</i>	<i>HK\$'000</i>	<i>% of total</i>
By in-house						
production plant	440,292	92,703	77.1	422,619	89,833	68.7
By subcontractors	<u>220,717</u>	<u>27,474</u>	<u>22.9</u>	<u>289,169</u>	<u>40,966</u>	<u>31.3</u>
	<u>661,009</u>	<u>120,177</u>	<u>100.0</u>	<u>711,788</u>	<u>130,799</u>	<u>100.0</u>

Please refer to the section headed “Business – Subcontracting” for further details of our subcontracting arrangement and our subcontractors during the Track Record Period.

COMPETITIVE STRENGTHS

We believe that our success and potential future growth are primarily attributable to the following competitive strengths of our Group, details of which are set out in the section headed “Business – Our Competitive Strengths” in this prospectus:

- Continued introduction of new product design to our customers
- Market diversification
- Experienced and high calibre management team
- Established business relationships with major customers and suppliers
- Stringent quality control system
- Tailor-made MIS

SUMMARY

BUSINESS STRATEGIES

We plan to leverage our competitive strengths and further enhance our market presence in the watch industry and to create long-term value for our Shareholders by executing the following strategies, details of which are set out in the section headed “Business – Our Business Strategies and Expansion Plans” in this prospectus:

- Acquisition of production facilities
- Expansion of our e-commerce customer base
- Strengthening of our design capabilities

COMPETITIVE LANDSCAPE

The watch manufacturing industry in China is highly fragmented. There are over 1,000 watch manufacturers in China including OEM and ODM players as well as watch manufacturers with their own brands and other subcontractors, with strong presence of companies from Hong Kong, Taiwan and the U.S.. The major factors of competition include (i) price, (ii) craftsmanship and quality, (iii) design capability and (iv) manufacturing lead time. Please see “Industry Overview” in this prospectus for further details regarding the competitive landscape of the watch manufacturing industry in China.

RISK FACTORS

There are a number of risks involved in our business and operations. They can be classified into: (i) risks relating to our business; (ii) risks relating to our industry; (iii) risks relating to conducting business in the PRC; and (iv) risks relating to the Share Offer and our Shares. Potential investors are advised to read the section headed “Risk factors” in this prospectus carefully before making any investment decision in the Share Offer. Some of the major risk factors include:

- We generally have no long-term sales contracts with our customers. Our business, financial condition and results of operations may be affected by the decrease of order from and/or loss of customers;
- Reliance on our production plant in the PRC;
- Our operation may be interrupted due to our relocation of production plant after Listing;
- Fluctuations in prices of watch materials or unstable supply of watch materials could negatively impact our operations and may adversely affect our profitability;
- Our success and ability to operate efficiently are dependent on our key management personnel;
- We may be subject to any labour shortages or other factors affecting labour force, which may materially affect our business operation and financial condition;

SUMMARY

- Failure to keep pace with changes in fashion trends and consumer demand for product design and quality, or failure to launch commercially viable products or failure to do so in a timely manner, may have a material adverse effect on our sales, business, results of operations and financial condition; and
- Changes in the global social, political and economic landscape may materially affect our business.

SUMMARY OF FINANCIAL INFORMATION

The following tables present a summary of our financial information for each of the year or as at the date indicated and should be read in conjunction with our financial information included in the accountants' report set out in Appendix I to this prospectus.

Highlight of our consolidated statements of profit or loss and other comprehensive income

	Year ended 31 December	
	2016	2017
	HK\$'000	HK\$'000
Revenue	151,892	174,817
Gross Profit	48,376	51,022
Gross profit margin	31.8%	29.2%
Profit for the year	4,067	3,960
Net profit margin	2.7%	2.3%

Our revenue increased from approximately HK\$151.9 million for the year ended 31 December 2016 to approximately HK\$174.8 million for the year ended 31 December 2017, or an increase of approximately 15.1%. Such increase was principally due to the increase in our sales to Customer A, Customer B and Customer Group C, which was primarily driven by the increase in our sales quantities to them and increase in the average selling price of our products sales to Customer A which was partially offset by the decrease in the average selling price of our products sales to Customer Group C in the same year.

Our net profit slightly decreased from approximately HK\$4.1 million for the year ended 31 December 2016 to approximately HK\$4.0 million for the year ended 31 December 2017 and our net profit margin slightly decreased from approximately 2.7% to approximately 2.3% for same year. Nevertheless, by excluding (i) the other income, and other loss, net which is not related to the Group's core business activities and (ii) the listing expenses, which is non-recurring in nature, our adjusted net profit increased from approximately HK\$3.9 million for the year ended 31 December 2016 to approximately HK\$6.3 million for the year ended 31 December 2017 principally due to the increase in our revenue, which was partially offset by the decrease in our gross profit margin in the same years. Despite the decrease in our gross profit margin, our adjusted net profit margin improved from approximately 2.6% to approximately 3.6% for same year principally due to (i) the decrease in the proportion of our selling and distribution expenses and administrative expenses to our total revenue and (ii) the decrease in our finance cost for the same years.

SUMMARY

For details of discussion of our result of operation during the Track Record Period, please refer to the section headed “Financial information – Description of selected items in consolidated statements of profit or loss and other comprehensive income” and the section headed “Financial information – Period to period comparison of results of operations – Year ended 31 December 2017 compared to year ended 31 December 2016” in this prospectus.

Highlight of our consolidated statements of financial position

	As at 31 December	
	2016	2017
	HK\$'000	HK\$'000
Non-current assets	57,505	51,439
Current assets	123,540	132,601
Current liabilities	153,578	129,654
Non-current liabilities	17	22,486
Net current (liabilities)/assets	(30,038)	2,947
Net assets	27,450	31,900

Our net current liabilities position of approximately HK\$30.0 million as at 31 December 2016 was turnaround to a net current assets position of approximately HK\$2.9 million as at 31 December 2017 due to (i) certain amount of our bank borrowings was classified as non-current liabilities as at 31 December 2017 and (ii) the disposal of an investment property for the year ended 31 December 2017. For details of discussion of our consolidated statements of financial position during the Track Record Period, please refer to the section headed “Financial information – Description of certain items of statements of financial position” in this prospectus.

Highlight of our consolidated statements of cash flows

	Year ended 31 December	
	2016	2017
	HK\$'000	HK\$'000
Operating cash flows before movements in working capital	17,094	13,691
Net cash generated from/(used in) operating activities	4,050	(4,894)
Net cash (used in)/generated from investing activities	7,474	(24,939)
Net cash (used in)/generated from financing activities	1,903	36,614
Net (decrease)/increase in cash and cash equivalents	13,427	6,781
Cash and cash equivalent at beginning of the year	(11,583)	1,080
Effect of foreign exchange rate changes	(764)	557
Cash and cash equivalent at end of the year	1,080	8,418

SUMMARY

We recorded net cash generated from operating activities of approximately HK\$4.1 million for the year ended 31 December 2016 but net cash used in operating activities of approximately HK\$4.9 million for the year ended 31 December 2017 primarily due to the listing expenses incurred for the year ended 31 December 2017.

We recorded net cash generated from investing activities of approximately HK\$7.5 million for the year ended 31 December 2016 but net cash used in investing activities of approximately HK\$24.9 million for the year ended 31 December 2017 mainly attributable to the increase in pledged bank deposits of approximately HK\$28.5 million for the year ended 31 December 2017.

We recorded an increase in our net cash generated from financing activities for the year ended 31 December 2017 as compared to prior year as we recorded larger proceeds from new borrowings and less repayment of borrowings in the same period.

For details of discussion of our cash flow activities during the Track Record Period, please refer to the section headed “Financial information – Liquidity and capital resources – Cash flow” in this prospectus.

Summary of financial ratios

	Year ended/as at 31 December	
	2016	2017
Return on total assets	2.2%	2.2%
Return on equity	14.8%	12.4%
Current ratio	0.8 times	1.0 times
Quick ratio	0.7 times	0.9 times
Gearing ratio	288.1%	273.1%
Debt to equity ratio	327.8%	214.2%
Interest coverage	2.1 times	2.3 times

Gearing ratio is calculated by dividing all debts by total equity at the year-end date and expressed as a percentage. For the formulae of the key financial ratios in the above table and the details of discussion of our key financial ratios during the Track Record Period, please refer to the section headed “Financial information – Key financial ratios” in this prospectus.

SHAREHOLDER INFORMATION

Immediately following completion of the Capitalisation Issue and the Share Offer (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), each of Mr. Cheuk, Mrs. Cheuk and Million Easy (a company owned by Mr. Cheuk and Mrs. Cheuk in equal shares) will together control 75% of the issued share capital of our Company. For the purpose of the GEM Listing Rules, Mr. Cheuk, Mrs. Cheuk and Million Easy are a group of Controlling Shareholders. Please refer to the section headed “Substantial Shareholders and Significant Shareholders” in this prospectus for further details.

SUMMARY

OFFERING STATISTICS

	Based on the Offer Price of HK\$0.23 per Share	Based on the Offer Price of HK\$0.27 per Share
Market capitalisation of our Shares ^(Note 1)	HK\$230.0 million	HK\$270.0 million
Unaudited pro forma adjusted combined net tangible assets of our Group per Share ^(Note 2)	HK\$0.07	HK\$0.08

Notes:

1. The calculation of the market capitalisation of the our Shares is based on 1,000,000,000 Shares in issue immediately after completion of the Share Offer and the Capitalisation Issue but does not take into account any Shares which may be allotted and issued upon the exercise of any options which may be granted under the Share Option Scheme or any Shares which may be allotted and issued or repurchased by our Company pursuant to the Issue Mandate and the Repurchase Mandate.
2. The unaudited pro forma adjusted combined net tangible assets of our Group per Share has been prepared with reference to certain estimation and adjustment. Please refer to Appendix II to this prospectus for further details.

LISTING EXPENSES

Assuming an Offer Price of HK\$0.25 (being the mid-point of the indicated Offer Price range), the total amount of listing expenses in connection with the Share Offer is estimated to be approximately HK\$26.9 million, of which approximately HK\$4.8 million has been charged to our profit or loss for the year ended 31 December 2017. Our Group estimates that listing expenses of approximately HK\$12.4 million will be charged to our profit or loss for the year ending 31 December 2018. The balance of approximately HK\$9.6 million which is directly attributable to the issue of the Offer Shares is expected to be accounted for as a deduction from equity upon Listing. Expenses in relation to the Listing are non-recurring in nature. Nevertheless, the financial results of our Group for the year ended 31 December 2018 are expected to be adversely affected by the listing expenses and our Group is expected to record net loss for the year ended 31 December 2018 after taking into account the listing expenses. The amount of listing expenses is a current estimate for reference only and the final amount to be recognised to the consolidated statement of comprehensive income of our Group for the years ending 31 December 2018 is subject to audit and the actual changes in variables and assumptions.

SUMMARY

FUTURE PLANS AND USE OF PROCEEDS

We estimate that the aggregate net proceeds to us from the Share Offer, after deducting related underwriting fees and estimated expenses in connection with the Share Offer, assuming an Offer Price of HK\$0.25 per Share (being the mid-point of the Offer Price range of HK\$0.23 to HK\$0.27), we estimate the aggregate net proceeds to us from the Share Offer will be approximately HK\$35.6 million. Our Directors presently intend to allocate the net proceeds from the Share Offer for the purposes and in the amounts set out below:

	Upon Listing to 31 December 2018 <i>HK\$'000</i>	For the six months ending 30 June 2019 <i>HK\$'000</i>	For the six months ending 31 December 2019 <i>HK\$'000</i>	For the six months ending 30 June 2020 <i>HK\$'000</i>	Total <i>HK\$'000</i>	Percentage of use of net proceeds %
Acquisition of new production facilities	–	–	22,774	–	22,774	63.9
Expansion of e-commerce customers base	–	762	1,100	877	2,739	7.7
Strengthening of design capabilities	–	2,200	–	–	2,200	6.2
Repayment of bank loan	7,422	–	–	–	7,422	20.8
Working capital	120	120	120	120	480	1.3
Total	7,542	3,082	23,994	997	35,615	100.0

The above allocation of the proceeds will be adjusted on a pro rata basis in the event that the Offer Price is fixed at a higher or lower level compared to the mid-point of the estimated offer price range stated in this prospectus. If the Offer Price is fixed at the high-end of the indicative Offer Price range, being HK\$0.27 per Offer Share, the net proceeds we receive from the Share Offer will increase by approximately HK\$4.6 million. If the Offer Price is set at the low-end of the indicative Offer Price range, being HK\$0.23 per Offer Share, the net proceeds we receive from the Share Offer will decrease by approximately HK\$4.6 million. Please refer to the section headed “Future Plans and Use of Proceeds” in this prospectus for further details.

REASONS FOR THE SHARE OFFER AND USE OF PROCEEDS

Our Directors believe that the net proceeds from the Share Offer shall provide our Group with sufficient financial resources to achieve our business strategies as detailed in the section headed “Business – Our business strategies and expansion plans” in this prospectus, in particular the acquisition of a new production plant and the corresponding relocation from the existing leased production plant to the new production plant in 2019 which we expect to spend a total of approximately 63.9% of the net proceeds of the Share Offer on such plan. Taking into account

SUMMARY

of (i) the tenancy agreement in respect to our existing leased production plant shall expire on 31 August 2020, (ii) the non-renewal of such tenancy agreement upon expiration due to the landlord's intention to upgrade the industrial zone that our existing leased production plant locates at in 2020, (iii) the potential risk of further disruption of our operation if we opt to lease a factory instead of acquire it, based on our previous experience in leasing a production plant including, the existence of the early termination right by the lessor and the unexpected change of circumstances and intention of the lessor itself, which are out of our control, (iv) the expected increase in the factory rental cost in Shenzhen City in future according to the Industry Report, (v) the potential savings by our Group for operating on a self-owned factory instead of on a leased premise in long run, (vi) the commercial benefits brought by the expansion of our fixed asset base, (vii) the limited loan to value ratio for the acquisition of a production plant as advised by one of the financial institutions in the PRC and (viii) our latest financial positions as at 30 April 2018 in particular relatively low level of cash on hand and net current assets position and the relatively high level of short term borrowings, our Directors are of the view that it is in the best interest of our Company and Shareholders as a whole to acquire instead of lease a new production factory and finance such acquisition by utilising the net proceeds of the Share Offer. For other commercial reasons for the Listing, please refer to the section headed "Future plans and use of proceeds – Reasons for the share offer and use of proceeds" in this prospectus.

RECENT DEVELOPMENTS

Subsequent to the Track Record Period and up to the Latest Practicable Date, we have continued to focus on developing our ODM business and there had not been any material change to our business model, revenue structure and cost structure. As at the Latest Practicable Date, our sales order backlog amounted to approximately HK\$60.0 million. Our Directors confirmed that, save for the listing expenses as disclosed in the above, since 31 December 2017 and up to the date of this prospectus, there had been no material adverse change in the trading or the financial position or prospectus of our Group. The Directors also confirmed that they were not aware of any material adverse change in the industry in which our Group operates.

MATERIAL ADVERSE CHANGE

Save and except for the listing expenses as discussed above, our Directors confirm that up to the date of this prospectus, there has been no material adverse change in our Group's financial and trading position since 31 December 2017 and there is no event since 31 December 2017 which would materially affect the information shown in the accountants' report set out in Appendix I to this prospectus.

DIVIDENDS

No member of our Group had declared any dividend during the Track Record Period and up to the Latest Practicable Date. There is no expected dividend payout ratio after the Listing. The payment and the amount of any future dividends will be at the discretion of our Directors and will depend upon our Group's future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors which our Directors deem

SUMMARY

relevant. Any final dividend for a financial year will be subject to Shareholders' approval. Holders of the Shares will be entitled to receive such dividends pro rata according to the amounts paid up or credited as paid up on the Shares.

LITIGATIONS AND COMPLIANCE

As at the Latest Practicable Date, no member of our Group was engaged in any litigation, claim or arbitration of material importance, and no litigation, claim or arbitration of material importance is known to our Directors to be pending or threatened against any member of our Group. Furthermore, during the Track Record Period and up to the Latest Practicable Date, we are not aware of any material and systemic non-compliance of our Group that required to be disclosed.

DEFINITIONS

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

“3 Wells”	3 Wells Watch Industries Limited (三井錶業有限公司), a company incorporated in Hong Kong with limited liability on 2 September 1986, an indirect wholly-owned subsidiary of our Company upon completion of the Reorganisation
“Accountants’ Report”	the accountants’ report of our Group prepared by the reporting accountants set out in Appendix I to this prospectus
“Application Form(s)”	WHITE Application Form(s) and YELLOW Application Form(s), or where the context so requires, any of them relating to the Public Offer
“Articles” or “Articles of Association”	the articles of association of our Company conditionally adopted on 20 June 2018 to become effective upon the Listing, a summary of which is set out in Appendix IV to this prospectus, and as amended, supplemented or otherwise modified from time to time
“associate(s)”	has the meaning ascribed to it under the GEM Listing Rules
“Beyond Blossom”	BEYOND BLOSSOM INVESTMENTS LIMITED (超盛投資有限公司), a company incorporated in the BVI with limited liability on 9 May 2017, which has become a direct wholly-owned subsidiary of our Company after completion of the Reorganisation
“Big Hope”	BIG HOPE INVESTMENTS LIMITED (宏希投資有限公司), a company incorporated in the BVI with limited liability on 9 May 2017, which has become an indirect wholly-owned subsidiary of our Company after completion of the Reorganisation
“Billion Start”	Billion Start Enterprise Limited (億進企業有限公司), a company incorporated in Hong Kong with limited liability on 16 December 1998 and direct wholly-owned subsidiary of Yau Tong, which has been excluded from our Group after completion of the Reorganisation
“Board” or “Board of Directors”	the board of Directors

DEFINITIONS

“business day”	a day (other than a Saturday, Sunday or public holiday in Hong Kong) on which licenced banks in Hong Kong are generally open for normal banking business
“BVI”	the British Virgin Islands
“Capitalisation Issue”	The issue of 749,999,999 new Shares to be made upon capitalisation of certain sums standing to the credit of the share premium account of our Company referred to in the section headed “3. Written resolutions of the sole Shareholder passed on 20 June 2018” in Appendix V to this prospectus
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant(s)”	person(s) admitted to participate in CCASS as direct clearing participant(s) or general clearing participant(s)
“CCASS Custodian Participant(s)”	person(s) admitted to participate in CCASS as custodian participant(s)
“CCASS Investor Participant(s)”	person(s) admitted to participate in CCASS as investor participant(s) who may be individual(s) or joint individual(s) or corporation(s)
“CCASS Operational Procedures”	the operational procedures of HKSCC in relation to CCASS, containing the practises, procedures and administrative requirements relating to the operations and functions of CCASS, as from time to time in force
“CCASS Participant(s)”	CCASS Clearing Participant(s), CCASS Custodian Participant(s) or CCASS Investor Participant(s)
“Cheer China”	Cheer China Group Holdings Limited (致華集團控股有限公司), a company incorporated in Hong Kong with limited liability on 3 August 2011, which has become an indirect wholly-owned subsidiary of our Company after completion of the Reorganisation
“Cheer Wells”	Cheer Wells Trading Limited (福井貿易有限公司), a company incorporated in Hong Kong with limited liability on 2 February 2015, which has become an indirect wholly-owned subsidiary of our Company after completion of the Reorganisation

DEFINITIONS

“close associate(s)”	has the meaning ascribed to it under the GEM Listing Rules
“Companies Law” or “Cayman Islands Companies Law”	the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
“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” and “our Company”	HANVEY GROUP HOLDINGS LIMITED (恆偉集團控股有限公司), a company incorporated in the Cayman Islands as an exempted company with limited liability on 12 June 2017 under the Companies Law and registered as a non-Hong Kong company under Part 16 of the Companies Ordinance on 15 August 2017
“connected person(s)”	has the meaning ascribed to it under the GEM Listing Rules
“Controlling Shareholder(s)”	has the meaning ascribed to it under the GEM Listing Rules and unless the context requires otherwise, refers to each of Million Easy, Mr. Cheuk and Mrs. Cheuk or, where the context so requires, any one of them
“core connected person(s)”	has the meaning ascribed to it under the GEM Listing Rules
“Corporate Governance Code”	Appendix 15 to the GEM Listing Rules, as amended, supplemented or otherwise modified from time to time
“Creative Profit”	Creative Profit Investment Limited (意利投資有限公司), a company incorporated in Hong Kong with limited liability on 22 May 2008, and has become an indirect wholly-owned subsidiary of our Company after completion of the Reorganisation

DEFINITIONS

“Deed of Indemnity”	the deed of indemnity dated 20 June 2018 entered into between our Controlling Shareholders and our Company, particulars of which are set out in the paragraph headed “E. Other Information – 1. Tax and other indemnities” in Appendix V to this prospectus
“Deed of Non-competition”	the deed of non-competition dated 20 June 2018 entered into between our Controlling Shareholders and our Company, particulars of which are set out in the section headed “Relationship with our Controlling Shareholders – Non-competition undertaking and corporate governance measures to manage conflicts of interests” in this prospectus
“Diamond Fountain”	DIAMOND FOUNTAIN INVESTMENTS LIMITED (鑽泉投資有限公司), a company incorporated in the BVI with limited liability on 9 May 2017, which has become an indirect wholly-owned subsidiary of our Company after completion of the Reorganisation
“Director(s)”	the director(s) of our Company
“EU”	the European Union
“Frost & Sullivan”	Frost & Sullivan International Limited, an Independent Third Party, being a professional market research company
“GEM”	the GEM 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” or “Hong Kong Government”	the government of Hong Kong
“Group”, “our Group”, “we”, “our” or “us”	our Company and its subsidiaries or any of them, or where the context otherwise requires, in respect of the period prior to our Company becoming the holding company of its present subsidiaries, such subsidiaries as if they were subsidiaries of our Company at the relevant time

DEFINITIONS

“HKFRS”	Hong Kong Financial Reporting Standards, including the Hong Kong Accounting Standards and interpretation issued by the Hong Kong Institute of Certified Public Accountants
“HKSCC”	Hong Kong Securities Clearing Company Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
“Hong Kong” or “HKSAR” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Branch Share Registrar”	Tricor Investor Services Limited, our Hong Kong branch share registrar and transfer office of our Company in Hong Kong
“Hong Kong dollars”, “HKD”, “HK\$” or “cents”	Hong Kong dollars and cents, respectively, the lawful currency of Hong Kong
“Independent Third Party(ies)”	individual(s) or company(ies) who/which had/is/are not connected person of the Company (within the meaning of the GEM Listing Rules)
“Industry Report”	a market research report commissioned by us and prepared by Frost & Sullivan on the overview of the industry in which our Group operates
“Joint Bookrunners”	Alpha Financial Group Limited and Bluemount Securities Limited
“Joint Lead Managers”	Alpha Financial Group Limited, Bluemount Securities Limited, TC Capital International Limited, Astrum Capital Management Limited and Quasar Securities Co., Limited
“Latest Practicable Date”	19 June 2018, being the latest practicable date for the purpose of ascertaining certain information in this prospectus prior to its publication
“Legal Counsel”	Mr. Chan Chung, barrister-at-law of Hong Kong
“Listing”	the listing and the commencement of dealings of our Shares on GEM

DEFINITIONS

“Listing Date”	the date on which our Shares are listed and dealings in our Shares first commence on GEM, which is expected to be on or about 12 July 2018
“Main Board”	the stock market operated by the Stock Exchange prior to the establishment of GEM (excluding options market) and which stock market continues to be operated by the Stock Exchange in parallel with GEM and which, for the avoidance of doubt, excludes GEM
“Memorandum” or “Memorandum of Association”	the amended and restated memorandum of association of our Company and as amended from time to time, a summary of which is set out in Appendix IV to this prospectus
“Million Easy”	MILLION EASY ENTERPRISES LTD. (萬宜集團有限公司), a company incorporated in the BVI with limited liability on 8 June 2007 and is owned by Mr. Cheuk and Mrs. Cheuk in equal shares, which has been excluded from our Group and become our Controlling Shareholder after completion of the Reorganisation
“MOFCOM”	The Ministry of Commerce of the PRC (中華人民共和國商務部)
“MPF”	Mandatory provident fund
“Mr. Cheuk”	Mr. Cheuk Sin Cheong Clement (卓善章), the chairman of our Board, our chief executive officer and an executive Director, spouse of Mrs. Cheuk, being one of our Controlling Shareholders
“Mrs. Cheuk”	Ms. Au Corona Ching Mei M.H. (歐靜美), an executive Director and spouse of Mr. Cheuk, being one of our Controlling Shareholders
“Ms. Heide Cheuk”	Ms. Cheuk Heide Oil-gei (卓凱璣), an executive Director and daughter of Mr. Cheuk and Mrs. Cheuk

DEFINITIONS

“Offer Price”	the final offer price per Offer Share (exclusive of brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%) of not more than HK\$0.27 per Share and expected to be not less than HK\$0.23 per Share at which the Offer Shares are to be offered under the Share Offer, to be determined in the manner as set out in the section headed “Structure and conditions of the Share Offer” of this prospectus
“Offer Share(s)”	collectively, the Placing Shares and the Public Offer Shares
“Placing”	the conditional placing of the Placing Shares at the Offer Price for and on behalf of our Company to professional, institutional and other investors, as described under the section headed “Structure and conditions of the Share Offer” of this prospectus
“Placing Shares”	225,000,000 new Shares initially offered for subscription under the Placing, subject to reallocation, as described under the section headed “Structure and conditions of the Share Offer” of this prospectus
“Placing Underwriter(s)”	the underwriter(s) that is/are expected to enter into the Placing Underwriting Agreement to underwrite the Placing Shares
“Placing Underwriting Agreement”	the conditional underwriting agreement expected to be entered into on or around 5 July 2018 by, among others, our Company, our Controlling Shareholders, our executive Directors, the Sole Sponsor and the Placing Underwriter(s) relating to the Placing
“PRC”, “China” or “People’s Republic of China”	the People’s Republic of China, save that, for the purpose of this prospectus and unless the context otherwise requires, references in this prospectus to the PRC do not include Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“PRC Legal Advisers”	Shu Jin Law Firm, our legal advisers as to PRC law

DEFINITIONS

“Precise Time”	PRECISE TIME GLOBAL LIMITED (準時環球有限公司), a company incorporated in the BVI with limited liability on 10 May 2017, which has become an indirect wholly-owned subsidiary of our Company after completion of the Reorganisation
“Predecessor Companies Ordinance”	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) as in force from time to time before the commencement date of the Companies Ordinance
“Price Determination Date”	the date, expected to be on or before 5 July 2018 or such later date as may be agreed between our Company and the Joint Bookrunners (for themselves and on behalf of the other Underwriters), on which the Offer Price is fixed for the purpose of the Share Offer
“Public Offer”	the issue and offer of the Public Offer Shares for subscription by the members of the public in Hong Kong for cash at the Offer Price (plus brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%), payable in full on application, and subject to the terms and conditions described in this prospectus and the Application Forms
“Public Offer Shares”	25,000,000 new Shares initially being offered by us for subscription under the Public Offer, subject to reallocation, as described under the section headed “Structure and conditions of the Share Offer” of this prospectus
“Public Offer Underwriter(s)”	the underwriter(s) of the Public Offer, whose name(s) is/are set out under the section headed “Underwriting – Public Offer Underwriter(s)” of this prospectus
“Public Offer Underwriting Agreement”	the conditional underwriting agreement dated 27 June 2018 entered into by, among others, our Company, our executive Directors, our Controlling Shareholders, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers and the Public Offer Underwriters relating to the Public Offer
“R&D”	research and development
“Regulation S”	Regulation S under the U.S. Securities Act

DEFINITIONS

“Reorganisation”	the corporate reorganisation of our Group in preparation for the Listing as described under the paragraph headed “History, Reorganisation and Group Structure – Reorganisation” in this prospectus
“Repurchase Mandate”	the general unconditional mandate granted to our Directors by our Shareholder in relation to the repurchase of our Shares, further information on which is set forth in the paragraph under “A. Further information about our Group – 6. Repurchase of our Shares by our Company” in Appendix V to this prospectus
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“SAFE”	the State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
“SCNPC”	the Standing Committee of the National People’s Congress of the PRC (中華人民共和國全國人民代表大會常務委員會)
“SFC” or “Securities Futures Commission”	the Securities and Futures Commission of Hong Kong
“SFO” or “Securities and Futures Ordinance”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Share(s)”	ordinary share(s) with nominal value of HK\$0.01 each in the share capital of our Company
“Shareholder(s)”	holder(s) of our Share(s)
“Share Offer”	the Public Offer and the Placing
“Share Option Scheme”	the share option scheme conditionally approved and adopted by our Company, the principal terms of which are summarised in the paragraph headed “D. Share Option Scheme” in Appendix V to this prospectus
“Shenzhen 3 Wells”	Shenzhen 3 Wells Watch Company Limited* (深圳三井錶業有限公司), a wholly foreign owned enterprise and an indirect wholly-owned subsidiary of our Company, established in the PRC with limited liability on 8 August 2005

DEFINITIONS

“Significant Shareholder(s)”	has the meaning ascribed to it under the GEM Listing Rules
“Sole Sponsor” or “TC Capital”	TC Capital International Limited, a licensed corporation for carrying on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, acting as the sole sponsor of the Listing and an Independent Third Party
“Stock Exchange” or “HKEx”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed to it under the GEM Listing Rules
“Substantial Shareholder(s)”	has the meaning ascribed to it under the GEM Listing Rules
“Talent Gift”	TALENT GIFT INTERNATIONAL LIMITED (佳賜國際有限公司), a company incorporated in the BVI with limited liability on 3 January 2017, which has become an indirect wholly-owned subsidiary of our Company after completion of the Reorganisation
“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
“TDC”	the Hong Kong Trade Development Council
“Track Record Period”	the financial years ended 31 December 2016 and 2017
“UAE”	the United Arab Emirates
“U.N.”	United Nations
“Underwriter(s)”	the Public Offer Underwriter(s) and the Placing Underwriter(s)
“Underwriting Agreements”	the Public Offer Underwriting Agreement and the Placing Underwriting Agreement
“United States” or “U.S.” or “USA”	the United States of America, its territories, its possessions and all areas subject to its jurisdiction

DEFINITIONS

“U.S. Securities Act”	the United States Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder
“Vast Peak”	VAST PEAK ENTERPRISES LIMITED (煌奇企業有限公司), a company incorporated in the BVI with limited liability on 21 September 2011, which has become an indirect wholly-owned subsidiary of our Company after completion of the Reorganisation
“WHITE Application Form(s)”	the application form(s) for use by the public who require(s) such Public Offer Shares to be issued in the applicant’s/applicants’ own name(s)
“WTO”	World Trade Organisation
“Yau Tong”	Yau Tong Group Limited, a company incorporated in the BVI with limited liability on 9 August 2007 and direct wholly-owned subsidiary of Million Easy, which has been excluded from our Group after completion of the Reorganisation
“YELLOW Application Form(s)”	the application form(s) for use by the public who require(s) such Public Offer Shares to be deposited directly into CCASS
“US\$” or “USD”	United States dollars, the lawful currency of the US

Unless expressly stated or otherwise required by the context, all data contained in this prospectus are as at the Latest Practicable Date.

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

If there is any inconsistency between the official Chinese name of the PRC entities mentioned in this prospectus and their English translation, the Chinese version shall prevail. English translations of official Chinese names and English translations which are marked with “” are for identification purposes only.*

GLOSSARY OF TECHNICAL TERMS

This glossary contains explanations of certain terms and definitions used in this prospectus in connection with our Group and its business. The terms and their meanings may not correspond to standard industry meaning or usage of those terms.

“band”	a strap or bracelet made of leather, metal or synthetic material used for fastening of a watch to the wrist
“CAGR”	compound annual growth rate
“dial”	an indicating “face” or plate of metal or other material, bearing various markings to show, in ordinary watches and clocks, the hours, minutes and seconds
“GFA”	gross floor area
“hand(s)”	an indicator, usually made of a thin, light piece of metal, variable in form, which moves over a graduated dial or scale showing the hour, minute or second
“ISO”	International Organization for Standardization, a non-government organisation based in Geneva, Switzerland, for assessing the quality systems of business organisations
“ISO 9001”	requirements set by the ISO for quality management system where an organisation needs to demonstrate its ability to provide products that fulfil customer and applicable regulatory requirements and aim to enhance customer satisfaction
“MIS”	Management Information System, providing information that is needed to manage organisations efficiently and effectively
“movements”	the inner mechanism of watch that keeps time and moves the watch’s hand, calendar, and so on
“ODM”	original design manufacturing
“OEM”	original equipment manufacturing
“SKD Kits”	semi-knocked-down kit, an incomplete kit containing certain parts needed to assemble a product
“sq.ft.”	square feet

GLOSSARY OF TECHNICAL TERMS

“sq.m.” or “m ² ”	square metre(s)
“traditional watch”	quartz and mechanical watch excluding smartwatch
“%”	per cent

FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements, including, but without limitation to, the words and expressions such as “aim”, “anticipate”, “believe”, “could”, “estimate”, “expect”, “going forward”, “intend”, “may”, “plan”, “potential”, “predict”, “propose”, “seek”, “should”, “will”, “would” and the negative of these words or other similar expressions or statements, in particular, in the sections headed “Summary”, “Risk Factors”, “Business”, “Financial information” and “Future plans and use of proceeds” of this prospectus in relation to future events, business or other performance and development, the future development of our Group’s industry and the future development of the general economy of our Group’s key markets and globally.

These statements are based on numerous assumptions regarding our Group’s present and future business strategy and the environment in which our Group will operate in the future. These forward-looking statements reflecting our Group’s current views with respect to future events are not a guarantee of future performance and are subject to certain risks, uncertainties and assumptions, including the risk factors described in this prospectus and the following:

- our Group’s business and operating strategies and our Group’s ability to implement such strategies;
- our Group’s capital expenditure and expansion plans;
- our Group’s ability to further develop and manage our Group’s expansion plans;
- our Group’s operations and business prospects;
- various business opportunities that our Group may pursue;
- our Group’s financial position;
- the availability and costs of bank loans and other forms of financing;
- our Group’s dividend policy;
- the regulatory environment of our Group’s industry in general;
- the performance and future developments of our Group’s industry;
- changes in competitive conditions and our Group’s ability to compete under these conditions; and
- other factors beyond our Group’s control.

One or more of these risks may materialise and various underlying assumptions may prove incorrect.

Subject to the requirements of the applicable laws, rules and regulations, our Company does not have any obligation to update or otherwise revise the forward-looking statements in this

FORWARD-LOOKING STATEMENTS

prospectus, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this prospectus might not occur in the way our Company expects, or at all. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements contained in this prospectus are qualified by reference to the cautionary statements set out in this section.

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

RISK FACTORS

You should carefully consider all of the information in this prospectus including the risks and uncertainties described below before making an investment in our Shares. Our operations involve certain risks, many of which are beyond our control. You should pay particular attention to the fact that part of our operations are conducted in the PRC and we are governed by a legal and regulatory environment which in some respects may differ from that which prevails in other countries. Our business, results of operations and financial condition could be materially and adversely affected by any of these risks. The trading price of our Shares could decline due to any of these risks, and you may lose all or part of your investment. In addition, we are also subject to other risks and uncertainties that are not currently known to us or which currently deem to be material. Such risks and uncertainties may also have a material adverse effect on our business, financial position, results of operations, profitability and future prospects.

We believe that there are certain risks and uncertainties involved in our operations, some of which are beyond our control. We have categorised these risks and uncertainties into: (i) risks relating to our business; (ii) risks relating to our industry; (iii) risks relating to conducting business in the PRC; (iv) risks relating to the Share Offer and our Shares; and (v) risks relating to this prospectus.

RISKS RELATING TO OUR BUSINESS

We generally have no long-term sales contracts with our customers. Our business, financial condition and results of operations may be affected by the decrease of order from and/or loss of customers

For each of the two years ended 31 December 2017, sales to our Group's five largest customers accounted for approximately 54.5% and 60.4% of our total sales respectively, while sales to our Group's largest customer accounted for approximately 30.0% and 29.4% in the same periods, respectively. We will continue to rely on the business with our major customers. We generally do not have long-term sales contracts with our customers and our sales are typically made on the basis of individual purchase orders. We are not the exclusive supplier for our customers and we do not have guaranteed orders from them. If any of our major customers cease to purchase or reduce substantially their order size in the future, we may not be able to seek alternative customers within a short period of time and therefore the business and financial performance of our Group will be materially and adversely affected.

Reliance on our production plant in the PRC

As at the Latest Practicable Date, we produce our watch products at our production plant on the 5th floor, Building No. 9, Zhengzhong Technology Park, Dayang Community, Baoan District, Shenzhen City, Guangdong Province, the PRC and the production plant is therefore crucial to the business of our Group. Natural or force majeure events, such as floods, fires, earthquakes and typhoons, may cause significant damage to our production plant, which could disrupt our operations and may be costly and time consuming to reinstate. In such case, we may

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incur additional costs for our production and may fail to meet the delivery schedule of our customers, causing our Group to lose revenue and damage our customer relationships in long term. In addition, according to the tenancy agreement of our existing production plant, the lessor has the right to terminate the tenancy before expiration as long as a 3-month written notice is served to us. If the lessor exercises such right and if we are not able to lease a suitable factory with similar scale to our new production base or have to lease at a much higher rental cost or if such relocation requires a longer time than expected, our business operation may be materially disrupted and may lead to possible delay of our production schedule.

Our operation may be interrupted due to our relocation of production plant after Listing

Due to the tenancy agreement in respect to our existing leased production plant shall expire on 31 August 2020 and we were informed by the lessor that such tenancy agreement would not be renewed upon expiration, we plan to acquire a new production plant and relocate from our existing production plant to the new production plant in the second half year of 2019 and the relocation is expected to be completed within a week based on our experience of relocation. However, if we are not able to identify a suitable factory for relocation, or if such relocation requires a longer time than expected or at a much higher cost, our business operation may be materially disrupted and our business, results of operations, financial condition and prospect may be materially and adversely affected.

Fluctuations in prices of watch materials or unstable supply of watch materials could negatively impact our operations and may adversely affect our profitability

During the Track Record Period, our materials costs were the largest components of our cost of sales and accounted for approximately 90.2% and 91.1% of our total cost of sales for each of the two years ended 31 December 2017 respectively. The cost, quality and timeliness of our products are therefore dependent on the cost, quality and continued supply of our required watch materials.

According to the Industry Report, the price index of steel in China, which is generally used for making watch cases and metal bracelets, decreased from 133.0 in 2012 to 71.0 in 2016, representing a CAGR of approximately -14.5% while the price index of brass in China, which is generally used for making watch dials, increased from 71.0 in 2012 to 83.0 in 2016, representing a CAGR of approximately 4.0%. Availability and cost of watch materials is subject to a variety of factors that are beyond our control, including but not limited to market shortages, suppliers' business interruptions, changes in relevant regulations and/or policies, weather conditions and overall economic conditions. If our suppliers fail to supply the material specified by us on time or the quality is not up to our standard, we may need to bear extra cost to purchase from other suppliers for immediate need or lead to significant delay in our delivery to our customers. As at the Latest Practicable Date, since we did not have any hedging arrangements protecting us from price fluctuations in watch materials, our future profitability will be subject to the price fluctuation in materials costs. Please refer to the section headed "Financial information – Key

RISK FACTORS

factors affecting our results of operations and financial condition – Materials cost” in this prospectus for the sensitivity analysis illustrating the impact of hypothetical fluctuations in our materials costs on our profit before tax during the Track Record Period.

Furthermore, our five largest suppliers accounted for approximately 41.7% and 40.8% of our total purchases for each of the two years ended 31 December 2017 respectively, and purchases from our largest supplier accounted for approximately 12.1% and 13.0% of our total purchases in the same periods, respectively. As we generally do not enter into any long-term supply agreement with our suppliers, if we fail to maintain good relationships with our major suppliers, we may not be able to source the quantity of watch materials we required in a timely manner and at competitive terms. If we cannot pass on any increase in our purchase costs of watch materials to our customers, our business, financial condition and results of operations may be materially and adversely affected.

We are subject to credit risk in respect of trade receivables

We generally grant to our customers a credit period of 30 to 90 days from the date of invoices. Our trade receivables as at 31 December 2016 and 2017 were HK\$22.5 million and HK\$49.1 million respectively and our trade receivables turnover days for the year ended 31 December 2016 and 2017 was approximately 54.7 days and 74.8 days respectively. Any difficulty in collecting our trade receivables from our customers could materially and adversely affect our operation and financial conditions.

We face the risk of obsolescence for our inventory

Our inventory comprises mainly (i) watch components and parts; (ii) work in progress; and (iii) finished goods. For interchangeable raw materials such as precious stones and movements, we shall keep a certain level of inventory. We also maintain a certain level of finished watches for our own branded product business. As at 31 December 2016 and 2017, our inventories amounted to approximately HK\$16.2 million and HK\$14.4 million respectively and representing approximately 14.3% and 12.0% of our current assets, respectively. If we fail to manage our inventory effectively, we may be subject to a risk of inventory obsolescence, a decline in inventory value, and significant inventory write-down in the event of any goods damaged during storage or otherwise, or where there are sudden and material changes in our customers’ product requirements and specifications, decreased demand and overstocking of particular products may be resulted. In such events, our results of operations would be adversely affected.

Our success and ability to operate efficiently are dependent on our key management personnel

Our success and growth have been, and will continue to be, relying heavily on certain key personnel, in particular Mr. Cheuk, Mrs. Cheuk and Ms. Heide Cheuk who have extensive experience in the watch industry. Please refer to the section headed “Directors, senior management and staff” in this prospectus for further details.

RISK FACTORS

If we experience any significant, material changes to the composition of our key management team, we may not be able to recruit suitable or qualified replacements timely or at all, and may have to incur additional expenses to recruit and train new personnel, which may disrupt our business and limit our ability to grow and therefore our competitiveness, business, results of operations and financial conditions as well as prospects may be materially and adversely affected.

We may be subject to any labour shortages or other factors affecting labour force, which may materially affect our business operation and financial condition

Any labour shortage, work stoppage or slowdowns at our production facilities may significantly disrupt our business operations or delay our expansion plan. In addition, we may have difficulties in hiring or retaining employees or may be subject to additional direct labour costs in the future. Any failure to attract qualified employees at reasonable cost levels and in a timely manner, and any future dispute with our employees may materially and adversely affect our business, financial condition and results of operations.

In addition, economic growth in the PRC has, in the past, been accompanied by periods of high inflation. The effects of the stimulus measures implemented by the PRC Government since the global economic crisis in 2008 have resulted in periods of high inflation. Inflation has material and adverse effects on our cost of sales. Aside from inflation and other factors, the implementation of the PRC Employment Contract Law (中華人民共和國勞動合同法), which became effective on 1 January 2008, also contributed to the increase in labour costs in the PRC. According to the Industry Report, the average annual wage of employed persons in the manufacturing industry in the PRC increased from RMB29,538.0 in 2012 to RMB47,065.0 in 2016, representing a CAGR of approximately 12.4%. If we are unable to identify and adopt appropriate means to reduce costs or pass on such increase in cost to our customers, our business, results of operations and financial condition may be materially and adversely affected.

Failure to keep pace with changes in fashion trends and consumer demand for product design and quality, or failure to launch commercially viable products or failure to do so in a timely manner, may have a material adverse effect on our sales, business, results of operations and financial condition

Our watch products are closely tied with global fashion trends. The success and popularity of our watch products therefore depend on our ability to keep pace with changes in global fashion trends and to design marketable and appealing products for our customers' selection. If we are unsuccessful in keeping pace with changes in consumer preferences in watch design and quality, our sales, business, results of operations, and prospects may be materially and adversely affected. In addition, as consumer tastes and preferences for watches are highly subjective in nature, if we were unable to introduce commercially viable products from time to time, our financial condition and profitability may be adversely affected.

Changes in the global social, political and economic landscape may materially affect our business

During the Track Record Period, our revenue was principally generated from our sale of watch products to our customers globally in particular Hong Kong, Brazil, UAE, Turkey and EU, of which each accounted for over 5.0% of our total revenue in any of the years during the Track

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Record Period and in aggregate contributed approximately 81.1% and 81.7% of our total revenue during the Track Record Period respectively. Watches are not necessities, and demand for our watch products is largely dependent on financial and economic conditions and political stability in the countries we served. Therefore, if there are any material adverse changes in the social, political and economic conditions in the markets we served including (i) change in local government policies, rules or regulations; (ii) riots, natural disasters and other acts of god; or (iii) a sudden downturn in the economy or consumer demands, our operations, financial results and profitability may be adversely affected.

We may not be successful in implementing our future business plans

Our business plans and strategies are based on assumptions of future events which may entail certain risks and are inherently subject to uncertainties. These assumptions may not be correct, which could affect the commercial viability of our business plans. As such, there can be no assurance that our business plans will be implemented successfully as scheduled (in terms of, for instance, time and cost) or at all. If we fail to effectively and efficiently implement our business plans, we may not be successful in achieving desirable and profitable results. Even if we effectively and efficiently implement our business plans, there may be other unexpected events or factors that prevent us from achieving the desirable and profitable results from the implementation of our business plans. Our financial condition, operating results and growth prospects may be materially and adversely affected if our future business plans fail to achieve positive results.

Failure to ensure our product quality could harm our business prospect

The quality of our watch products is critical to the success of our business as our customers usually pay great attention to the product quality. Assurance of our product quality significantly depends on the effectiveness of our quality control system, which in turn depends on a number of factors, including the design of the quality control measures and our ability to ensure that our employees adhere to our quality control requirements. Any significant failure of our quality control system and deterioration of our product quality can result in damage to our reputation and we may lose our customer orders and may face product liability claims or product recalls from our customers.

Our turnover is subject to seasonal fluctuation

Our revenue is generally recognised upon delivery of our products to our customers' freight forwarding offices in Hong Kong and has been fluctuated due to seasonal effect of the global consumer products market. During the Track Record Period, we recorded the highest sales during the fourth quarter for shipment for Christmas holiday. As a result, we might record a net loss in a particular period during the low season of the year. Also, the comparison of our revenue and operating results between different periods in any given financial year may not be relied upon as indicators of our performance. Any unpredictable and material change in the global watch market during our peak seasons may materially and adversely affect our financial condition and operating performance for the year.

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As we have not registered the watch designs we provided to our ODM customers, the use of our watch designs by any third party or vice versa may materially affect our business

Original product design is a crucial part of our business model. We had launched around 300 new watch designs for each of the two years ended 31 December 2017 for selection by our ODM customers. We also design and develop our branded products for our branded product business. However, none of our watch designs has been registered by us and therefore it may be possible for third parties to use our watch designs. Such use of the watch designs we provide to our ODM customers by any third parties, especially by our competitors, may affect our relationship with the respective ODM customers and may have an adverse impact on our business in long term.

On the other hand, there can be no assurance that our designs will not infringe any third parties' alleged design right. Should any infringement claim be initiated against our Group, we may incur significant legal expenditure to defend or be required to pay substantial damages. As a result, our Group's reputation and business can be adversely affected.

We have historically received interest income from related parties and director and there can be no assurances that we will continue to receive such non-recurring income

We have recorded approximately HK\$0.9 million and HK\$0.8 million interest income from related parties and director for the year ended 31 December 2016 and 2017 respectively. Such interest income received from related parties and Director are non-recurring in nature. We cannot guarantee we will continue to receive such non-recurring income in the future when the existing loan advanced have been settled and no additional interest-bearing loan have been made to the related parties and director.

Our financial performance may be affected by the uncertainties of accounting estimation on the revaluation of investment properties and other financial assets.

The valuation of our investment properties and other financial assets is subject to uncertainties in accounting estimates due to the application of significant unobservable inputs (Level 3 fair value measurements). The change of such unobservable inputs or related accounting estimation shall affect the valuation of our investment properties and other financial assets. Revaluation of our investment properties and other financial assets may result in a decrease in the value of the investment properties and our financial result may be adversely affected.

We have had net current liabilities as at 31 December 2016, and we cannot assure you that we will not experience net current liabilities in the future, which could expose us to liquidity risk

We recorded net current liabilities of approximately HK\$30.0 million as at 31 December 2016. Our net current liabilities positions exposed us to liquidity risk. Our future liquidity, the payment of trade and other payables and the repayment of borrowings as and when they become

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due will primarily depend on our ability to maintain adequate cash generated from operating activities and adequate external financing. We cannot assure you that we will not experience periods of net current liabilities in the future. In such circumstances, our business, liquidity, results of operations, financial condition and prospects could be materially and adversely affected.

We cannot guarantee positive operating cash flow in the future

We recorded negative operating cash flows of approximately HK\$4.9 million for the year ended 31 December 2017 mainly because of our payment of listing expenses. For details of discussion of our cash flow activities during the Track Record Period, please refer to the section headed “Financial information – Liquidity and capital resources – Cash flow” in this prospectus. We cannot guarantee that we will be able to record positive operating cash flow in the future as we continue to grow our business. If we continue to record negative operating cash flow in the future, our working capital may be constrained, and our overall business, financial condition and results of operations may be materially and adversely affected.

Our historical revenue and profit margin may not be indicative of our future revenue and profit margin

For each of the two years ended 31 December 2017, our Group’s revenue amounted to approximately HK\$151.9 million and HK\$174.8 million, respectively and our Group’s gross profit amounted to approximately HK\$48.4 million and HK\$51.0 million representing gross profit margin of approximately 31.8% and 29.2%, respectively. We also recorded a net profit position of approximately HK\$4.1 million and HK\$4.0 million for each of the two years ended 31 December 2017 respectively.

The historical financial information of our Group is a mere analysis of our past performance only and does not have any implication and may not necessarily reflect our financial performance in the future. Our business and financial prospect will depend on our capability to secure new business opportunities and to control our costs. Gross profit margins of our products may fluctuate case by case due to factors such as our relationships with our customers, technical complexity of watch designs, delivery schedule required by our customers, and therefore varies from order to order. There is no assurance that the profit margins of our products in the future will remain at a level comparable to those recorded during the Track Record Period. In such case, our financial condition may be adversely affected.

Any unanticipated request by our customers to our products after our confirmation of sales order with them might affect our profitability

Our gross profit margin decreased from approximately 31.8% for the year ended 31 December 2016 to approximately 29.2% for the year ended 31 December 2017. Such decrease in our gross profit margin was principally due to, among others, the decrease in the gross profit margin of our sales to Customer A in the same year, which was principally resulted from our acceptance of an unanticipated request by Customer A to change to a relatively higher quality

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electro-plating service provider from the previous supplier with lower service quality after we confirmed a series of sales orders with Customer A by the end of the year ended 31 December 2016 and hence a relatively higher cost we incurred for the procurement of its service for the year ended 31 December 2017 but we did not fully pass the increased costs to Customer A in view of our long term business relationship with it. Going forward, if there is any unanticipated request by our customers to our products after our confirmation of sales order with them and we cannot fully pass the increased costs to them, our gross profit margin may be adversely affected.

Our insurance coverage may not be sufficient to cover the risks associated with our business operations

Our product quality is generally governed by the Product Quality Law of the PRC (中華人民共和國產品質量法) (the “**Product Quality Law**”). In accordance with the Product Quality Law, the producers and sellers shall be liable for product quality. According to the Product Quality Law, consumers or other victims who suffer personal injury or property damage due to product defects may claim compensation from the producer as well as the seller. Please refer to the section headed “Regulatory overview – The PRC laws and regulations – Laws and regulations relating to work safety and product quality – Product quality” in this prospectus for further details. We do not maintain any product liability insurance. In the event that our Group is held liable for any product liability claim, our business and reputation may be adversely affected. Our financial position may also be materially and adversely affected as a result of our settlement and payment for such claims.

Furthermore, we maintain insurance policies against loss or damage to our office, equipment and facilities, employee compensation, cargo and inventory. However, such policies generally do not cover damages to the properties caused by any act of God, war, riot, public disorder, civil commotion, flood, explosion, epidemic, terrorism and strike. Any material losses, damages and liabilities that are not covered or adequately covered by our insurance policies will have a material and adverse effect on our business, results of operations, financial condition and profitability.

We are subject to significant foreign exchange risk due to our exposure to overseas markets

Our purchase of watch parts and components are generally settled in HKD, while the overheads of our head office in Hong Kong and production plant in the PRC are settled in HKD and RMB respectively and thus our functional currencies are RMB and HKD. On the other hand, our sales are primarily denominated in USD and HKD, which exposes us to foreign exchange risk. In addition, we recorded a loss from exchange differences arising on translation of approximately HK\$1.1 million and a gain from exchange differences arising on translation of approximately HK\$0.5 million for each of the two years ended 31 December 2017, respectively. The exchange differences arising on translation during the Track Record Period represented the translation differences when translating the functional currency of Shenzhen 3 Wells which is RMB to the presentation currency of our Group which is HKD. As such, any significant adverse change in the exchange rates between our functional currencies and other currencies may result in losses for us and could have a material adverse effect on our business, results of operations and financial condition.

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Our business operation and financial condition are subject to interest rate fluctuations and high level of indebtedness

We recorded a relatively high gearing ratio of approximately 288.1% and 273.1% as at 31 December 2016 and 2017 respectively. In addition, most of our bank overdrafts and borrowings bore interest at floating rates. As at 31 December 2016 and 2017, our interest-bearing borrowings amounted to approximately HK\$79.1 million and HK\$87.1 million respectively and approximately 99.7% and all of which bore interest at floating rates. Therefore, any significant adverse change in the interest rates may result in increase in our finance costs and could have a material adverse effect on our business, results of operations and financial condition.

Our total indebtedness increased from approximately HK\$79.3 million as at 31 December 2016 to approximately HK\$87.8 million as at 31 December 2017 and decreased to approximately HK\$62.2 million as at 30 April 2018. We cannot assure you that we can manage to lower our level of indebtedness in the near future. High level of indebtedness could limit our ability to obtain further financing, which may reduce our competitiveness, increase our vulnerability to adverse general economic and industry conditions and limit our flexibility in reacting to changes in the industry environment in which we operate. We may also be required to utilise a substantial portion of our cash flows from operations to pay the interest and principal of our indebtedness.

We may experience transfer pricing risk

Our Group has adopted transfer pricing arrangements among its group companies in Hong Kong and the PRC to regulate intragroup sales. For details of our transfer pricing arrangement, please refer to the paragraph headed “Business – Transfer Pricing Arrangement” in this prospectus.

There is no assurance that the tax authorities would not challenge the appropriateness of our Group’s transfer pricing arrangement or that the relevant regulations or standards governing such arrangement will not be subject to future changes. If a competent tax authority later finds that the transfer prices and the terms that our Group has applied are not appropriate, such authority may require our Company or its subsidiaries to re-assess the transfer prices and re-allocate the income or adjust the taxable income. Any such reallocation or adjustment could result in a higher overall tax liability for our Group and may adversely affect the business, financial condition and results of operation of our Group.

RISKS RELATING TO OUR INDUSTRY

We operate in a highly competitive environment and we cannot assure you that we will be able to grow or sustain our competitiveness

According to the Industry Report, watch manufacturing in the PRC is highly competitive and fragmented with over 1,000 players. The pricing of and demand for our watches are significantly affected by the intensity of competition we face. Our competitors may have substantially greater financial and technological resources, design and manufacturing capacities

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and stronger customer and supplier relationships than we do. As a result, we cannot assure you that we may be able to compete effectively with these competitors and the competitive pressures could adversely affect our business and financial condition and results of operations.

Consumer preference may shift away from traditional mechanical and quartz movement watches toward smartwatches

We only manufacture and distribute traditional mechanical and quartz movement watches during the Track Record Period. According to the Industry Report, the global smartwatch market has been growing at a strong pace in recent years, with total sales registering a CAGR of 18.9% from 2012 to 2016. Therefore, consumer preference may shift away from traditional mechanical and quartz movement watches toward smartwatches due to its increasing popularity. Mechanical and quartz movement watches may not sustain its attractiveness to consumers which is beyond our control. In such cases, our Group's business prospects and results of operation may be materially and adversely affected.

Changes in existing laws and regulations and the imposition of new laws, regulations, restrictions and any other entry barriers in relation to our industry may increase our costs

We are subject to compliance with various laws and regulations relating to the production and sales of watches in the jurisdictions in which we operate. Failure to comply with these laws and regulations may result in imposition of conditions on or the suspension of sale or seizure of our products, or significant penalties or claims. In the event that the countries in which we operate increase the stringency of such laws and regulations, our operating costs may increase and we may not be able to pass these additional costs onto our customers. Further, in the event that any jurisdiction in which we operate or plan to operate imposes any new laws, regulations, restrictions or other barriers to entry, our ability to expand may be limited and our growth and development may be adversely affected.

RISKS RELATING TO CONDUCTING BUSINESS IN THE PRC

We operate our production facility in the PRC. A substantial part of parts and components are sourced from various suppliers who are mostly Hong Kong companies with production facilities in the PRC. Accordingly, the business, results of operations and financial condition as well as prospects of our Group are subject, to a significant degree, to the economic, political and legal developments in the PRC.

Political and economic policies of the PRC Government may affect our business and results of operations and may result in our inability to sustain our growth and expansion strategies

The PRC economy has largely been a centrally planned economy, which differs from other developed economies of the world in many respects, including:

- the degree of the PRC Government's involvement;

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- the growth rate and degree of development;
- the uniformity in implementation and enforcement of laws;
- the content of and control over capital investment;
- the control of foreign exchange; and
- the allocation of resources.

The PRC economy has been transitioning from a centrally planned economy to a more market-oriented economy. For approximately three decades, the PRC Government has implemented economic reform measures to utilise market forces in the development of the PRC economy. The PRC economy has grown significantly in recent decades, though we cannot assure you that this growth will continue or continue at the same pace.

In addition, the PRC Government continues to play a significant role in regulating industries and the economy through policy measures. As such, we cannot assure you that we will not be adversely affected by the measures that are under continuous adjustments. Also, the PRC Government has implemented various measures to guide the allocation of resources. Some of these measures may benefit the overall economy of the PRC, but may also have a negative impact on the watch industry or on us. For example, our financial results may be adversely affected by government control over capital investments or changes in tax regulations that are applicable to us.

The legal system in the PRC is not fully developed and has inherent uncertainties that could limit the legal protections available to our shareholders

Our watch manufacturing operations are conducted in the PRC and are governed by PRC laws, rules and regulations. Our PRC subsidiaries are generally subject to laws, rules, and regulations applicable to foreign investments in the PRC. The PRC legal system is based on written statutes and their interpretation by the Supreme People's Court of the PRC. Prior court decisions may be cited for reference but have limited weight as precedents. The PRC has not developed a fully-integrated legal system, and recently-enacted laws and regulations may not sufficiently cover all aspects of economic activity in the PRC. As many of these laws, rules and regulations are relatively new, and because of the limited volume of published decisions, the interpretation and enforcement of these laws, rules and regulations involve uncertainties and may not be as consistent and predictable as in other jurisdictions. In addition, the PRC legal system is based in part on government policies and administrative rules that may have a retroactive effect. As a result, we may not be aware of our violations of these policies and rules until some time after the violation. Furthermore, the legal protection available to us under these laws, rules and regulations may be limited. Any litigation or regulatory enforcement action in the PRC may be protracted and may result in substantial costs and the diversion of resources and management attention.

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PRC regulations on direct investment and loans by offshore holding companies to PRC subsidiaries may delay or prevent us from using the proceeds from the Share Offer to make additional capital contributions or loans to our PRC subsidiaries, which could harm our liquidity and our ability to fund and expand our business

As an offshore holding company incorporated in the Cayman Islands, we may make additional capital contributions or loans to our PRC subsidiaries, including from the proceeds of the Share Offer. Any loans to our PRC subsidiaries are subject to PRC regulations. For example, loans from us to our wholly-owned PRC subsidiaries, which are foreign-invested enterprises, to finance their activities cannot exceed statutory limits and must be registered with SAFE or its local counterparts. Any medium or long term loan to be provided by us to our PRC subsidiaries must be recorded and registered by the National Development and Reform Committee and the SAFE or its local branches. We may also decide to finance our wholly-owned PRC subsidiaries by means of capital contributions. These capital contributions must be filed in the Foreign Investment Comprehensive Management Information System and registration with other government authorities in the PRC. We cannot assure you that we will be able to obtain the necessary government registrations or recording on a timely basis, if at all, with respect to future loans or capital contributions by us to our subsidiaries. If we fail to receive such registrations or recordings, our ability to use the proceeds of the Share Offer and to capitalise our PRC operations may be adversely affected, which in turn could adversely affect our liquidity and our ability to fund and expand our business.

In addition, on 30 March 2015, the SAFE promulgated the Circular on Reforming the Administration Measures on Conversion of Foreign Exchange Registered Capital of Foreign-invested Enterprises (《國家外匯管理局關於改革外商投資企業外匯資本金結匯管理方式的通知》) (the “SAFE Circular 19”), a notice regulating the conversion by a foreign-invested company of its capital contribution denominated in a foreign currency into RMB. The notice requires that the capital of a foreign-invested company converted from foreign currencies and settled in RMB may not be used for equity investments within the PRC but may only be used for purposes within the company’s business scope, as approved by the authorities in charge of foreign investment or by other competent authorities, and as registered with the Administration for Industries and Commerce. In addition, SAFE strengthened its oversight of the flow and use of the capital of a foreign-invested company settled in RMB and converted from foreign currencies. The use of such RMB capital may not be changed without SAFE’s approval and may not in any case be used to repay RMB denominated loans if the proceeds of such loans have not been used. Violations of SAFE Circular 19 will result in severe penalties, including heavy fines. As a result, SAFE Circular 19 may significantly limit our ability to transfer the net proceeds from the Share Offer to our PRC subsidiaries or to convert the net proceeds from this offering into RMB to invest in or acquire any other PRC companies, which may adversely affect our ability to expand our business.

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Dividends payable by us to our non-PRC Shareholders and gains on the sale of our Shares may become subject to a PRC withholding tax under PRC tax laws

Under the EIT Law and the EITIR, PRC income tax at a rate of 10% is applicable to dividends payable by a PRC resident enterprise to investors that are non-resident enterprises (and those enterprises that do not have an establishment or place of business in the PRC, or those that have such an establishment or place of business but the relevant income of which is not effectively connected with the establishment or place of business) to the extent such dividends have their source within the PRC unless such foreign corporate shareholder is qualified for a preferential withholding tax under a tax treaty. Similarly, any gain realised on the transfer of our Shares by such enterprises is also subject to 10% PRC income tax if such gain is regarded as income derived from sources within the PRC. If we are regarded as a PRC resident enterprise, it is unclear whether the dividends we pay with respect to our Shares, or the gain you may realise from the transfer of our Shares, will be treated as income derived from sources within the PRC and be subject to PRC income tax. This will depend on how the PRC tax authorities interpret, apply or enforce the EIT Law and the EITIR. If we are required under the EIT Law to withhold PRC income tax on our dividends payable to our foreign Shareholders, or if you are required to pay PRC income tax on the transfer of your Shares, the value of your investment in our Shares may be materially and adversely affected.

Dividends payable to our Hong Kong subsidiaries may not qualify for the reduced PRC withholding tax rate under the special arrangement between Hong Kong and the PRC

Under the EIT Law, if the foreign shareholder is not deemed a PRC tax resident enterprise under the EIT Law, dividend payments from PRC subsidiary to their foreign shareholders are subject to a withholding tax at the rate of 10%, unless the jurisdiction of such foreign shareholders has a tax treaty or similar arrangement with the PRC and the foreign shareholder obtains approval from competent local tax authorities for application of such tax treaty or similar arrangement. Pursuant to a special arrangement between Hong Kong and the PRC, the withholding tax rate is lowered to 5% if a Hong Kong resident enterprise is the beneficial owner of more than 25% of a PRC company distributing the dividends. According to the Announcement on Promulgating the Administrative Measures for Tax Convention Treatment for Non-resident Taxpayers (關於發佈《非居民納稅人享受稅收協定待遇管理辦法》的公告) (“**2015 Administration Measures**”), which was promulgated by the SAT on 27 August 2015 and became effective on 1 November 2015, prior approval from or filings with the SAT is no longer required before a non-resident taxpayer can enjoy the tax preferential treatment under the relevant treaties. A non-resident taxpayer may enjoy the tax preferential treatment at the time of return filings or withholding and declaration through a withholding agent if it is eligible for the tax preferential treatment under the relevant provisions of a tax treaty, subject to the follow-up administration by the relevant tax authority. In order to enjoy the tax preferential treatment, the non-tax resident shall file documents as required by the 2015 Administration Measures with tax authority when filing tax returns or withholding and declaration through a withholding agent, among which is the tax resident identity issued by the tax authority of the counter party to the treaty. During the follow-up administration, the PRC tax authorities shall verify if the non-resident taxpayer is eligible for the tax preferential treatment, ask for supplemental documents from the non-tax

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resident or, if the non-resident taxpayer is deemed not eligible for the tax preferential treatment, require the non-resident taxpayer to pay up the non-payment or underpayment of the tax within specified timeframe. Moreover, according to the Notice of the State Administration of Taxation on the Issues Concerning the Application of the Dividend Clauses of Tax Agreements (國家稅務總局關於執行稅收協定股息條款有關問題的通知) issued by the SAT on 20 February 2009, if the main purpose of an offshore arrangement is to obtain preferential tax treatment, the PRC tax authorities have the discretion to adjust the preferential tax rate for which an offshore entity would otherwise be eligible. There is no assurance that the PRC tax authorities will recognise and accept the 5% withholding tax rate on dividends paid by our PRC subsidiary and received by our Hong Kong subsidiary.

We will rely on dividends payable by our subsidiaries for our cash needs, and any limitation on the ability of our subsidiaries to make payments to us could have a material adverse effect on our ability to conduct our business

We will rely on dividends payable by our subsidiaries for our cash needs, including the funds necessary to pay any dividends and other cash distributions to our Shareholders, to service any debt we may incur and to pay our operating expenses. The payment of dividends by subsidiaries established in the PRC is subject to limitations. Regulations in the PRC currently permit payment of dividends only out of accumulated profits as determined in accordance with accounting standards and regulations in the PRC. Each of our PRC subsidiaries is also required to set aside at least 10% of its after-tax profit based on PRC accounting standards each year to its general reserves until the cumulative amount of such reserves reaches 50% of its respective registered capital unless the laws regarding foreign investment otherwise provide. A PRC subsidiary shall not distribute any profits until any losses from prior fiscal years have been offset. The statutory reserves of our PRC subsidiaries are not distributable as loans, advances or cash dividends. PRC withholding tax will also be imposed on dividends paid to non-PRC resident investors. In addition, if any of our PRC subsidiaries incurs debt on its own behalf in the future, the instruments governing the debt may restrict its ability to pay dividends or make other distributions to us. Any limitations on the ability of our PRC subsidiaries to transfer funds to us could materially and adversely limit our ability to grow, make investments or acquisitions that could be beneficial to our business, pay dividends and otherwise fund and conduct our business.

The PRC Government's control over currency conversion may affect the value of our Shares and limit our ability to utilise our cash effectively

The PRC Government imposes controls on the convertibility between RMB and foreign currencies and, in certain cases, the remittance of foreign currency into and out of the PRC. Under existing PRC foreign exchange regulations, payments of current account items, including, among others, dividend distributions, interest payments and expenditures from trade related transactions, can be made in foreign currencies without prior approval from the SAFE by complying with certain procedural requirements. However, approval from or registration with appropriate governmental authorities is required where RMB is to be converted into foreign

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currency and remitted out of the PRC to pay capital expenses such as the repayment of loans denominated in foreign currencies.

Shortages in the availability of foreign currency may restrict the ability of our PRC subsidiaries to remit sufficient foreign currency to pay dividends or other payments to their holding companies or our Company, or otherwise satisfy their foreign currency-denominated obligations. If the foreign exchange control system prevents us from obtaining sufficient foreign currency to satisfy our currency demands, we may not be able to pay dividends in foreign currencies to our Shareholders.

Our business operations may be subject to acts of God, acts of war and epidemics or pandemics which are beyond our control and which may cause damage, loss or disruption to our business

Our business is subject to general economic and social conditions in the PRC. Natural disasters, epidemics or pandemics and other acts of God which are beyond our control may adversely affect the economy, infrastructures and livelihood of the people in the PRC. Some cities in the PRC are vulnerable to the threat of natural disasters such as floods, fires or droughts. For instance, in 2009, a H1N1 Swine Flu broke out in Mexico and spread globally, resulting in a loss of lives. In 2013, a H7N9 virus was first reported to have infected humans in the PRC causing widespread fear. Our business, results of operations and financial condition may be adversely affected in a material respect if such natural disasters occur in the PRC. Certain areas of the PRC, including Guangdong Province, or other areas of the PRC, may result in material disruptions to our operations or a slowdown of the PRC's economy, which may materially and adversely affect our business, financial condition and results of operations. Acts of war and terrorism may also injure our employees, cause loss of lives, damage our facilities, disrupt our distribution channels and/or destroy our markets, which may materially affect our sales, costs, overall financial condition and results of operations. The potential for war or terrorist attacks may also cause uncertainty and cause our business to suffer in ways that we cannot predict. Our business, results of operations and financial condition may be materially and adversely affected as a result.

RISKS RELATING TO THE SHARE OFFER AND OUR SHARES

There has been no existing public market for our Shares and there may be a lack of liquidity and volatility in its price and trading volume.

Prior to the Share Offer, there was no public market for, and no established price for, our Shares. There is no guarantee that there will be an active and liquid public trading market for our Shares or that such market will be sustainable upon the Listing.

Furthermore, we cannot assure you that there will not be any volatility in the price and trading volume of our Shares upon the Listing. In particular the Offer Price may differ significantly from the market price of our Shares following the Share Offer and prospective investors should not treat the Offer Price as an indicator of the market price of our Shares.

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We are not able to assure investors that an active public market will develop or be sustained after the Share Offer. There is also no assurance that the market price of our Shares will not decline below the Offer Price. If an active trading market for our Shares does not develop or is not sustained after the Share Offer, the market price and liquidity of our Shares may be materially and adversely affected. You should also note that our Shares may experience significant price and volume fluctuations due to factors such as fluctuations in our revenue, earnings, cash flows, new investments, acquisitions or alliances, regulatory development, additions or departures of key personnel, or actions taken by competitors and the matters unrelated to our operating performance and outside our Group's control such as general fluctuations in the securities market. We cannot assure that such factors will not occur and it is difficult to quantify their impact on the liquidity and the market price of our Shares.

Investors' shareholding may experience dilution if we issue additional Shares in the future

Our Company may need to raise additional funds in the future to finance business expansion or new development or acquisitions. If additional funds are raised through the issuance of new equity or equity-linked securities other than on a pro-rata basis to the existing Shareholders, the shareholding of such Shareholders in the Company may be diluted.

Any disposal by the Controlling Shareholders of a substantial number of Shares in the public market could adversely affect the prevailing market price of our Shares

There is no guarantee that the Controlling Shareholders, whose interests may be different from other Shareholders, will not dispose of their Shares following the expiration of their respective lock-up periods after the Listing, the details of which are set out in the section headed "Underwriting" in this prospectus. Sale of substantial amounts of our Shares in the public market, or the perception that these sales may occur, may materially and adversely affect the prevailing market price of our Shares.

We may not be able to pay any dividends on our Shares

No dividends had been declared by our Group during the Track Record Period. We cannot guarantee when, if and in what form dividends will be paid on our Shares following the Share Offer. A declaration of dividends must be proposed by the Board and is based on, and limited by, various factors, including, without limitation, our business and financial performance, capital and regulatory requirements and general business conditions. 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.

Sale or perceived sale of substantial amounts of the Shares in the public market after the Share Offer could adversely affect the prevailing market price of the Shares

The Shares beneficially owned by the Controlling Shareholders are subject to certain lock-up periods under the GEM Listing Rules. There is no assurance that the Controlling Shareholders, whose interests may be different from those of other Shareholders, will not

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dispose of their Shares following the expiration of the lock-up periods. Sale of substantial amounts of the Shares in the public market, or the perception that such sale may occur, could adversely affect the prevailing market price of the Shares.

RISKS RELATING TO THIS PROSPECTUS

Investors should not place undue reliance on facts, forecasts, estimates and other statistics in this prospectus relating to the economy and our industry obtained from official resources

Facts, forecasts, estimates and other statistics in this prospectus relating to the economy and the industry in which we operate our business have been collected from materials from official government sources. While we have exercised reasonable care in compiling and reproducing such information and statistics derived from government publications, we cannot assure you nor make any representation as to the accuracy or completeness of such information.

Neither we or any of our respective affiliates or advisers, nor the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers or the Underwriter or any of its affiliates or advisers, have independently verified the accuracy or completeness of such information directly or indirectly derived from official government sources. In particular, due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice, such information and statistics may be inaccurate or may not be comparable to information and statistics produced with respect to other countries. Statistics, industry data and other information relating to the economy and the industry derived from the official government sources used in this prospectus may not be consistent with other information available from other sources and therefore, investors should not unduly rely upon such facts, forecasts, estimates and statistics while making investment decisions.

Forward-looking statements contained in this prospectus are subject to risks and uncertainties

This prospectus contains certain statements that are “forward-looking” and uses forward looking terminology such as “anticipate”, “believe”, “could”, “expect”, “going forward”, “intend”, “may”, “ought to”, “plan”, “consider”, “project”, “seek”, “should”, “will” and “would”. Those statements include, among other things, the discussion of our growth strategy and the expectations of our future operations, liquidity and capital resources.

Purchasers of the Offer Shares are cautioned that reliance on any forward-looking statement involves risks and uncertainties and that, any or all of those assumptions could prove to be inaccurate and as a result, the forward-looking statements based on those assumptions could also be incorrect. The uncertainties in this regard include those identified in the risk factors discussed above. In light of these and other uncertainties, the inclusion of forward looking statements in this prospectus should not be regarded as representations or warranties by us that our Company’s plans and objectives will be achieved and these forward-looking statements should be considered in light of various important factors, including those set forth in this section. We do not intend to update these forward-looking statements in addition to our on-going disclosure obligations

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pursuant to the GEM Listing Rules or other requirements of the Stock Exchange. Investors should not place undue reliance on such forward-looking information.

You should read this entire prospectus and we strongly caution you not to place any reliance on any information contained in press articles, media coverage and/or research analyst reports regarding us, our industry or the Share Offer

There may be press articles, media coverage and/or research analyst regarding us, our industry or the Share Offer, which may include certain financial information, financial projections and other information about us that do not appear in this prospectus. We have not authorised the disclosure of any such information in the press, media or research analyst report and we make no representation as to the appropriateness, accuracy, completeness or reliability of any such information or publication. Investors should rely solely upon the information contained in this prospectus, the Application Forms and any formal announcements made by us in Hong Kong in making investment decision regarding the Share Offer. We do not accept any responsibility for any such press articles, media coverage or research analyst report or 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 prospectus is inconsistent or in conflict with the information contained in this prospectus, we disclaim it. Accordingly, prospective investors should not rely on any such information. In making your decision as to whether to purchase our Shares, you should rely only on the financial, operational and other information included in this prospectus. By applying to purchase our Shares on the Share Offer, you will be deemed to have agreed that you will not rely on any information other than that contained in this prospectus and Application Forms.

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

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

INFORMATION ON THE SHARE OFFER

This prospectus is published solely in connection with the Share Offer and the listing of the Shares on GEM, which is solely sponsored by the Sole Sponsor and managed by the Joint Lead Managers.

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

The delivery of this prospectus should not, under any circumstances, constitute a representation that there has been no change or development reasonably likely to involve a change in our affairs since the date of this prospectus or imply the information contained in this prospectus is correct as at the date subsequent to the date of this prospectus.

Details of the structure of the Share Offer, including its conditions, are set out in the section headed "Structure and conditions of the Share Offer" in this prospectus, and the procedures for applying for the Public Offer Shares are set out in the section headed "How to apply for the Public Offer Shares" in this prospectus and in the relevant Application Forms.

APPLICATION FOR LISTING OF OUR SHARES ON GEM

Our Company has applied to the Stock Exchange for the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Share Offer and the Capitalisation Issue.

Dealings in the Shares on GEM are expected to commence on Thursday, 12 July 2018. No part of the Shares or loan capital of our Company is listed, traded or dealt in on any other

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

stock exchange and save as disclosed herein, no such listing or permission to deal is being or proposed to be sought. At present, our Company is not seeking or proposing to seek a listing of, or permission to deal in, any part of the Shares or loan capital on any other stock exchange. All the Offer Shares will be registered on the Hong Kong Branch Share Registrar in order to enable them to be traded on GEM.

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

Pursuant to Rule 11.23(7) of the GEM Listing Rules, at the time of Listing and at all times thereafter, our Company must maintain the “minimum prescribed percentage” of 25% of the total number of issued shares of our Company in the hands of the public (as defined in the GEM Listing Rules). It is expected that a total of 250,000,000 Offer Shares representing 25% of the enlarged total number of issued shares of our Company will be in the hands of the public immediately following completion of the Share Offer and the Capitalisation Issue and upon Listing.

ABOUT THE SHARE OFFER

We have not authorised anyone to provide any information or to make any representation not contained in this prospectus. You should not rely on any information or representation not contained in this prospectus as having been authorised by us, the Sole Sponsor, the Joint Bookrunners, Joint Lead Managers, the Underwriters or any of our or their respective affiliates, directors, officers, employees, agents or representatives or any other persons or parties involved in the Share Offer.

PROCEDURE FOR APPLICATION FOR THE PUBLIC OFFER SHARES

The procedure for application for the Public Offer Shares is set out in the section headed “How to apply for the Public Offer Shares” in this prospectus and on the relevant Application Forms.

FULLY UNDERWRITTEN

The Public Offer is fully underwritten by the Public Offer Underwriters under the terms and conditions of the Public Offer Underwriting Agreement. The Placing Underwriting Agreement relating to the Placing is expected to be entered on or around the Price Determination Date, subject to agreement on pricing of the Offer Shares between the Joint Bookrunners (for themselves and on behalf of the other Underwriters) and our Company. Further information relating to the Underwriters, the Share Offer and the underwriting arrangements is set out in the section headed “Underwriting” of this prospectus.

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

If, for any reason, the Offer Price is not agreed, the Share Offer will not proceed and will lapse. For further information about the Underwriters and the underwriting arrangements, please refer to the section headed “Underwriting” in this prospectus.

RESTRICTIONS ON OFFER AND SALE OF OFFER SHARES

No action has been taken to permit a public offering of the Offer Shares in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation.

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

The distribution of this prospectus and the offering and sale of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions and pursuant to registration with or authorisation by the relevant securities regulatory authorities or an exception therefrom. In particular, the Offer Shares have not been publicly offered or sold, directly or indirectly, in the United States.

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

HONG KONG REGISTER OF MEMBERS AND STAMP DUTY

Our principal register of members will be maintained by the principal share registrar, Conyers Trust Company (Cayman) Limited, in the Cayman Islands. Dealings in the Shares on GEM will be registered on our Hong Kong branch register of members maintained in Hong Kong by our Hong Kong Branch Share Registrar, Tricor Investor Services Limited.

Only Shares registered on our Hong Kong branch register of members maintained in Hong Kong may be traded on GEM. Dealings in our Shares registered on our branch register of members in Hong Kong will be subject to Hong Kong stamp duty.

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

PROFESSIONAL TAX ADVICE RECOMMENDED

If you are unsure about the taxation implications of subscribing for or purchasing, holding or disposing of or dealing in our Shares, you should consult your professional advisers. None of our Company, the Sole Sponsor, the Joint Bookrunners, Joint Lead Managers, the Underwriters, their respective directors and any other person involved in the Share Offer accepts responsibility for any tax effects on, or liability of, any person or holders of Shares resulting from subscribing for, purchasing, holding or disposing of or dealing in our Shares.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus on GEM and our Company complies with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on GEM or any other date as determined by HKSCC. Investors should seek the advice of their stockbroker or other professional adviser for details of those settlement arrangements and how such arrangements will affect their rights, interests and liabilities.

Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day.

All necessary arrangements have been made enabling the Shares to be admitted to CCASS.

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

COMMENCEMENT OF DEALINGS

Dealings in the Shares on GEM are expected to commence at 9:00 a.m. on Thursday, 12 July 2018.

Our Shares will be traded in board lots of 10,000 Shares each. The stock code for our Shares is 8219. We will not issue temporary documents of title.

ROUNDING

Certain amounts and percentage figures included in this prospectus have been subject to rounding adjustments. Accordingly, totals of rows or columns of numbers in tables may not be equal to the apparent total of individual items. Where information is presented in thousands or millions of units, amounts may have been rounded up or down. Any discrepancies in any table between totals and sums of amounts listed therein are due to rounding.

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

EXCHANGE RATE CONVERSION

Unless the context requires otherwise, amounts denominated in RMB and USD have been translated, for illustration purpose only, into HK\$ in this prospectus at the following rates:

- RMB1.00 = HK\$1.18; and
- USD1.00 = HK\$7.80.

No representation is made that any amount in RMB, USD and HK\$ could have been or could be converted at the above rates or at any other rates or at all.

For the section headed “Financial information” and Appendix I in this prospectus, unless otherwise specified, income and expense items of foreign operations are translated into the presentation currency of our Group (i.e. Hong Kong dollars) at the average exchange rates for the relevant period, unless exchange rates fluctuate significantly during the period, in which case, the rates approximating to those ruling when the transactions took place are used. All assets and liabilities of foreign operations are translated at the rate ruling at the end of each reporting period.

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

DIRECTORS

Name	Residential address	Nationality
<i>Executive Directors</i>		
Mr. Cheuk Sin Cheong Clement (卓善章)	Vineyard Mouton Avenue House 15 No. 23 Ngau Tam Mei Yuen Long New Territories Hong Kong	Chinese
Ms. Au Corona Ching Mei M.H. (歐靜美)	Vineyard Mouton Avenue House 15 No. 23 Ngau Tam Mei Yuen Long New Territories Hong Kong	Chinese
Ms. Cheuk Heide Oil-gei (卓凱璣)	House 20 Greenery Garden 3 Fairview Park Boulevard Yuen Long New Territories Hong Kong	Chinese
<i>Independent Non-executive Directors</i>		
Mr. Yu Sau Ning Homer M.H. (余壽寧)	Flat M–P, 13/F Yue Cheung Centre 1–3 Wong Chuk Yeung Street Fo Tan New Territories Hong Kong	Chinese
Mr. Zhao Zhipeng (趙志鵬)	Flat C, 21/F Southern Building No. 3 Wing Fong Road Kwai Chung New Territories Hong Kong	Chinese
Ms. Yee Wai Fong Wendy (余惠芳)	Flat A, 3/F, Block 3 Bayshore Towers 608 Sai Sha Road Ma On Shan New Territories Hong Kong	Chinese

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

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

PARTIES INVOLVED IN THE SHARE OFFER

Sole Sponsor

TC Capital International Limited

A licensed corporation to carry on type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activity as defined in the SFO
Suite 1903-4, 19/F
Tower 6, The Gateway
Harbour City
9 Canton Road
Tsim Sha Tsui
Kowloon
Hong Kong

Joint Bookrunners

Alpha Financial Group Limited

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

Bluemount Securities Limited

Room 2403-05, Jubilee Centre
18 Fenwick Street, Wan Chai
Hong Kong

Joint Lead Managers

Alpha Financial Group Limited

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

Bluemount Securities Limited

Room 2403-05, Jubilee Centre
18 Fenwick Street, Wan Chai
Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

TC Capital International Limited

Suite 1903-4, 19/F
Tower 6, The Gateway
Harbour City
9 Canton Road
Tsim Sha Tsui
Kowloon
Hong Kong

Astrum Capital Management Limited

Room 2704, 27/F, Tower 1,
Admiralty Centre, 18 Harcourt Road,
Hong Kong

Quasar Securities Co., Limited

Unit A, 12/F,
Harbour Commercial Building,
122-124 Connaught Road,
Central, Hong Kong

Co-Managers

Well Link Securities Limited

Unit 16-18, 11/F
China Merchants Tower
Shun Tak Centre
168-200 Connaught Road Central
Hong Kong

Fruit Tree Securities Limited

Room 1906, 19/F
China Insurance Group Building
141 Des Voeux Road Central
Central, Hong Kong

Wellington Financial Limited

Unit B, 10/F
128 Wellington Street
Central, Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

Legal advisors to the Company

As to Hong Kong laws:
David Fong & Co.
Solicitors, Hong Kong
Unit A, 12/F
China Overseas Building
139 Hennessy Road
Wanchai
Hong Kong

As to PRC laws:
Shu Jin Law Firm
PRC attorneys-at-law
12/F
Taiping Finance Tower
6001 Yitian Road
Futian District
Shenzhen
PRC

As to Cayman Islands laws:
Conyers Dill & Pearman
Cayman Islands attorneys-at-law
Cricket Square
PO Box 2681
Grand Cayman KY1-1111
Cayman Islands

Legal advisors to the Sole Sponsor and the Underwriters

As to Hong Kong laws:
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Solicitors, Hong Kong
22/F
World-Wide House
Central
Hong Kong

As to PRC laws:
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PRC attorneys-at-law
11th Floor
Central Business Building
No. 88, Fuhua 1st Road
Futian District
Shenzhen
PRC

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

Auditor and reporting accountant	HLB Hodgson Impey Cheng Limited <i>Certified Public Accountants</i> 31/F, Gloucester Tower, The Landmark 11 Pedder Street Central Hong Kong
Internal control consultant	HLB Hodgson Impey Cheng Risk Advisory Services Limited 31/F, Gloucester Tower, The Landmark 11 Pedder Street Central Hong Kong
Industry Consultant	Frost & Sullivan International Limited 1706, One Exchange Square 8 Connaught Place Central, Hong Kong
Compliance adviser	TC Capital International Limited <i>A corporate licensed under the SFO to engage in type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO</i> Suite 1903-4, 19/F Tower 6, The Gateway Harbour City 9 Canton Road Tsim Sha Tsui Kowloon Hong Kong
Property valuer	Asset Appraisal Limited Room 901, 9/F, On Hong Commercial Building No. 145 Hennessy Road Wanchai Hong Kong
Receiving bank	Hang Seng Bank Limited 20/F, 83 Des Voeux Road Central, Hong Kong

CORPORATE INFORMATION

Registered office in the Cayman Islands	Cricket Square, Hutchins Drive PO Box 2681, Grand Cayman KY1-1111, Cayman Islands
Head office and principal place of business in Hong Kong (registered under Part 16 of the Companies Ordinance)	Units 3, 5 and 6, 15th Floor Tower One, Ever Gain Plaza No. 88 Container Port Road Kwai Chung New Territories Hong Kong
Company secretary	Mr. Xie Xing (謝星) <i>Certified Public Accountant</i> Unit F, 23rd Floor Block 2, Elegant Garden 409-419 Queen's Road West Hong Kong
Compliance officer	Ms. Au Corona Ching Mei M.H. (歐靜美) Vineyard Mouton Avenue House 15 No. 23 Ngau Tam Mei Yuen Long New Territories Hong Kong
Authorised representatives	Ms. Au Corona Ching Mei M.H. (歐靜美) Vineyard Mouton Avenue House 15 No. 23 Ngau Tam Mei Yuen Long New Territories Hong Kong Mr. Xie Xing (謝星) Unit F, 23rd Floor Block 2, Elegant Garden 409-419 Queen's Road West Hong Kong
Audit committee	Mr. Yu Sau Ning Homer M.H. (余壽寧) (<i>Chairperson</i>) Mr. Zhao Zhipeng (趙志鵬) Ms. Yee Wai Fong Wendy (余惠芳)
Remuneration committee	Mr. Zhao Zhipeng (趙志鵬) (<i>Chairperson</i>) Mr. Yu Sau Ning Homer M.H. (余壽寧) Ms. Cheuk Heide Oil-gei (卓凱璣)

CORPORATE INFORMATION

Nomination committee	Mr. Cheuk Sin Cheong Clement (卓善章) <i>(Chairperson)</i> Mr. Yu Sau Ning Homer M.H. (余壽寧) Ms. Yee Wai Fong Wendy (余惠芳)
Principal share registrar and transfer office in the Cayman Islands	Conyers Trust Company (Cayman) Limited Cricket Square Hutchins Drive PO Box 2681 Grand Cayman KY1-1111 Cayman Islands
Hong Kong branch share registrar and transfer office	Tricor Investor Services Limited Level 22, Hopewell Centre 183 Queen's Road East Hong Kong
Principal bankers	Bank of China (Hong Kong) Limited 1 Garden Road Hong Kong Hang Seng Bank 83 Des Voeux Road Central Central Hong Kong
Company's website	www.hanveygroup.com.hk <i>(information of this website does not form part of this prospectus)</i>

INDUSTRY OVERVIEW

The information presented in this section, unless otherwise indicated, is derived from various official government publications and other publications and from the market research report prepared by Frost & Sullivan, which was commissioned by us. We believe that the information has been derived from appropriate sources and we have taken reasonable care in extracting and reproducing the information. We have no reason to believe that the information is false or misleading in any material respect or that any fact has been omitted that would render the false information or misleading in any material respect. The information has not been independently verified by us the Sole Sponsor, the Joint Bookrunners, the Joint Lead Manager, the Underwriter, or any of our or their respective directors, officers or representatives or any other person involved in the Share Offer nor is any representation given as to its accuracy or completeness.

SOURCE OF INFORMATION

Given our watch products are mainly assembled in China and distributed to our customers around the world in particular in Hong Kong, Brazil, UAE, Turkey and EU, of which each accounted for over 5.0% of our total revenue in any of the years during the Track Record Period and altogether accounted for 81.1% and 81.7% of our total revenue during the Track Record Period respectively, we commissioned Frost & Sullivan, an independent market research and consulting company, to conduct an analysis of, and to prepare a report on watch manufacturing industry in China and watch distribution market in Hong Kong, Brazil, UAE, Turkey and EU. Unless otherwise indicated, the term “watch” disclosed in this section refer to traditional quartz and mechanical watch. We paid Frost & Sullivan a fee of HK\$390,000 which we believe reflects market rates for reports of this type. Our Directors are of the view that the payment does not affect the fairness of the views and conclusions presented in the Industry Report. Our Directors confirm that, after taking reasonable care, there is no adverse change in the market information since the date of the Industry Report which may qualify, contradict or have an impact on the information in this section.

ABOUT FROST & SULLIVAN

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

RESEARCH METHODOLOGY

Frost & Sullivan’s independent research consists of both primary and secondary research obtained from various sources in respect of watch manufacturing industry in China and watch distribution market in Hong Kong, Brazil, UAE, Turkey and EU. Primary research involved in-depth interviews with leading industry participants and industry experts. Secondary research involved reviewing company reports, independent research reports and data based on Frost & Sullivan’s own research database. Projected data were obtained from historical data analysis plotted against macroeconomic data with reference to specific industry-related factors. Except as otherwise noted, all of the data and forecasts contained in this section are derived from the Industry Report, various official government publications and other publications.

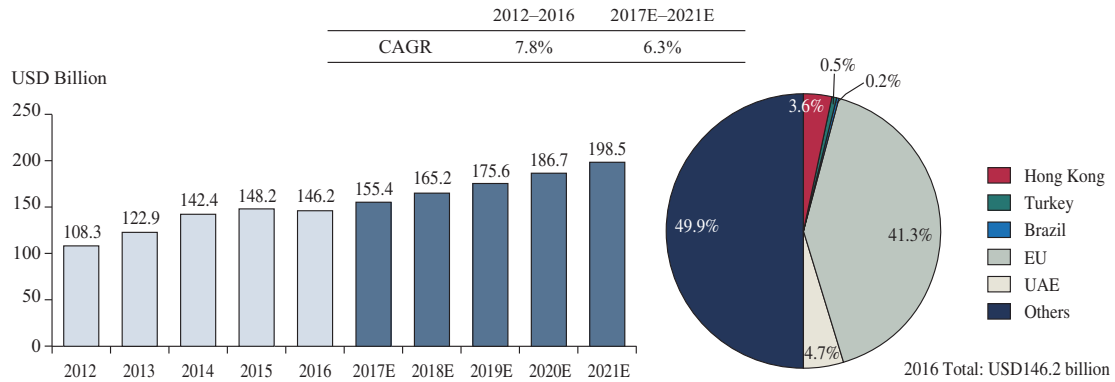
In compiling and preparing the research, Frost & Sullivan assumed that the social, economic and political environments in the relevant markets are likely to remain stable in the forecast period, which ensures the stable and healthy development of watch manufacturing industry in China and watch distribution market in Hong Kong, Brazil, UAE, Turkey and EU.

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OVERVIEW OF GLOBAL WATCH MARKET

Owing to the increasing global consumption on luxury jewellery, watches and accessories in the past, in particular by Chinese consumers, global watch retail sales grew at a CAGR of approximately 7.8% and reached approximately USD146.2 billion in 2016 from approximately USD108.3 billion in 2012. It is expected that the growth of global watch retail sales will slowdown to a CAGR of approximately 6.3% from approximately USD155.4 billion in 2017 to approximately USD198.5 billion in 2021, mainly due to the sluggish global economy and slowdown in Chinese tourist spending on luxury products.

Global Market Size of Traditional Watches by Retail Sales, 2012–2021E and Breakdown of Global Retail Sales of Watches by Countries, 2016

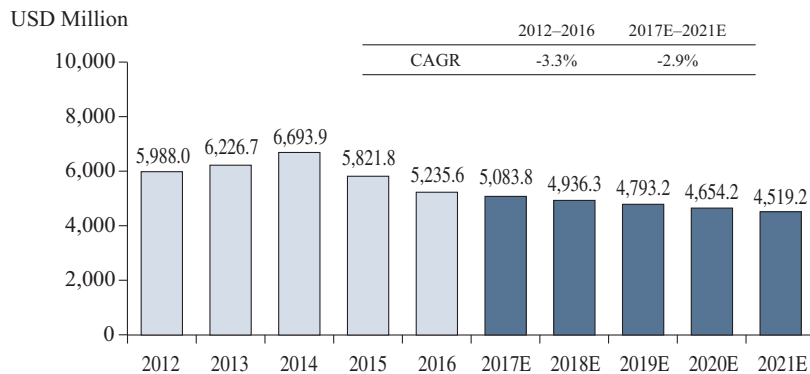


Source: Frost & Sullivan

Hong Kong

Overall retail sales in Hong Kong has been severely hit by the decline in the number of Chinese tourists and their spending in recent years due to the implementation of the “one trip per week” policy in 2015. Watch retail sales dropped from approximately USD5,988.0 million in 2012 to approximately USD5,235.6 million in 2016 or at a CAGR of approximately -3.3%. Retail sales of watches in Hong Kong is expected to recover slowly and decrease at a slower rate from approximately USD5,083.8 million in 2017 to approximately USD4,519.2 million in 2021 or at a CAGR of approximately -2.9% driven by the recovering economy.

Market Size of Traditional Watches in Hong Kong by Retail Sales, 2012–2021E



Source: Frost & Sullivan

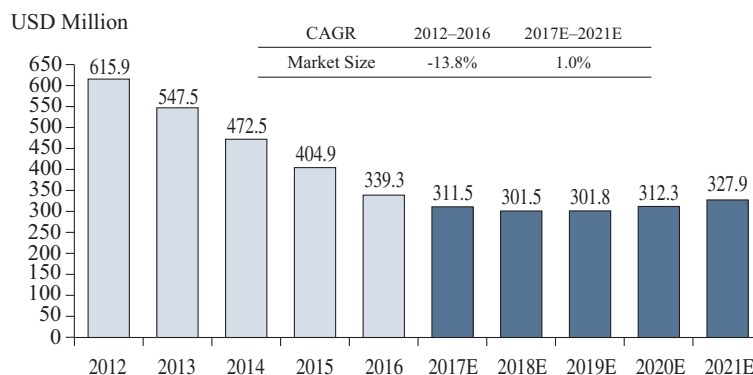
Brazil

The Brazilian economy has been hit severely by local economic crisis since 2014, where local retail sales of watches was also severely affected. The local retail sales of watches dropped from approximately US\$615.9 million in 2012 to approximately US\$339.3 million in 2016 or at

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a CAGR of approximately -13.8%. Nevertheless, driven by increasing household incomes and private consumption, Brazil, as one of the growing economies in the Latin America, is expected to slowly recover from the recession and is expected to see a mild growth in local retail sales of watches at a CAGR of approximately 1.0% from USD311.5 million in 2017 to USD327.9 million in 2021.

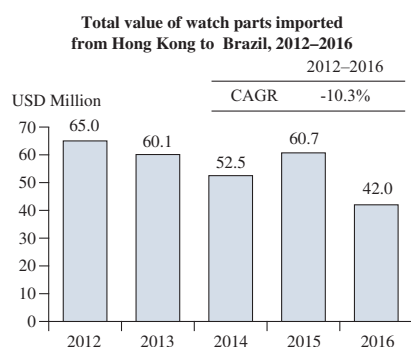
Market Size of Traditional Watches in Brazil by Retail Sales, 2012–2021E



Source: Frost & Sullivan

The economic crisis in Brazil has also hit its international trade business and contributed to the decline in watch imports. Watch imports from Hong Kong declined rapidly from approximately USD6.6 million in 2012 to approximately USD0.9 million in 2016 or at a CAGR of approximately -39.3%.

Followed by the decline in watch imports from Hong Kong, total import value of watch parts from Hong Kong to Brazil had also declined from approximately USD65.0 million in 2012 to approximately USD42.0 million in 2016 or at a CAGR of approximately -10.3% during the same period. Nevertheless, it is expected that, with the stable economic development in Brazil, watch parts import in Brazil from Hong Kong will have a steady growth in the coming years.



Source: Frost & Sullivan

Note: The import data of SKD Kits in Brazil is not available and therefore to be supplemented by the import data of watch parts as alternative. Watch parts include spring, case, strap, dial, glass, crown and spring bar. SKD Kits are counted in the import value of watch parts.

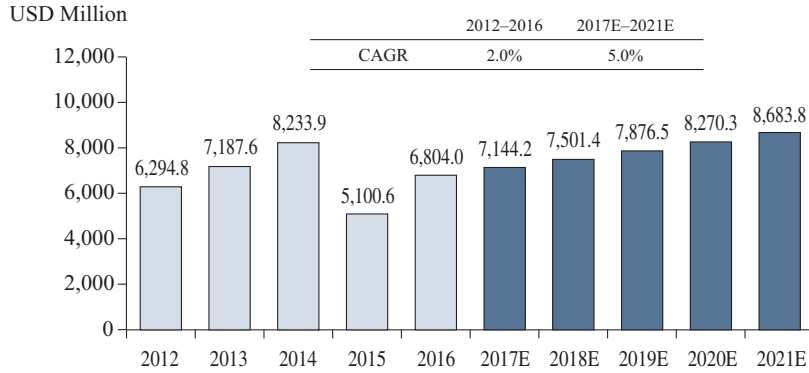
UAE

Due to the material fluctuations in and downtrend of the price of oil, which contributes the largest part to the country's public revenues, UAE suffered from a slowdown in the domestic consumption and thus retail sales in 2015. With the recovery of oil prices and the rationalisation of the levels of government spending, the overall retail sales market in UAE has commenced recovery in 2016 and the local retail sales of watches had reached approximately USD6,804.0 million in 2016 from approximately USD6,294.8 million in 2012 at a CAGR of approximately

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2.0% in the same period. In the coming years, the retail sales of watches in UAE is expected to grow at a CAGR of approximately 5.0% from approximately USD7,144.2 million in 2017 to approximately USD8,683.8 million in 2021 driven by the recovery of oil prices and growing public and private sector activities and thus driving the private domestic consumption including the retail sales of watches.

Market Size of Traditional Watches in UAE by Retail Sales Revenue, 2012–2021E



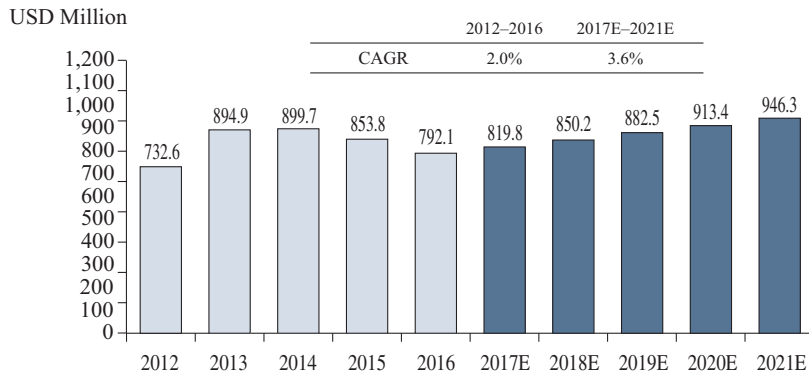
Source: Frost & Sullivan

Followed by the fluctuation of local watch retail sales, the total value of watches imported from Hong Kong had slightly declined from approximately USD5.6 million in 2012 to approximately USD5.3 million in 2016, or at a CAGR of approximately -1.4% in the same period.

Turkey

In the past years, there had been a steady growth in the demand for watches in Turkey due to the stable economic development. Retail sales of watches in Turkey had increased at a CAGR of approximately 2.0% from approximately USD732.6 million in 2012 to approximately USD792.1 million in 2016, contributable by growing standard of living and the diversified local taste for watches. In the coming years, retail sales is expected to continue to grow at a CAGR of approximately 3.6% from USD819.8 million in 2017 to approximately USD946.3 million in 2021, driven by the expected increase in the private consumption.

Market Size of Traditional Watches in Turkey by Retail Sales, 2012–2021E



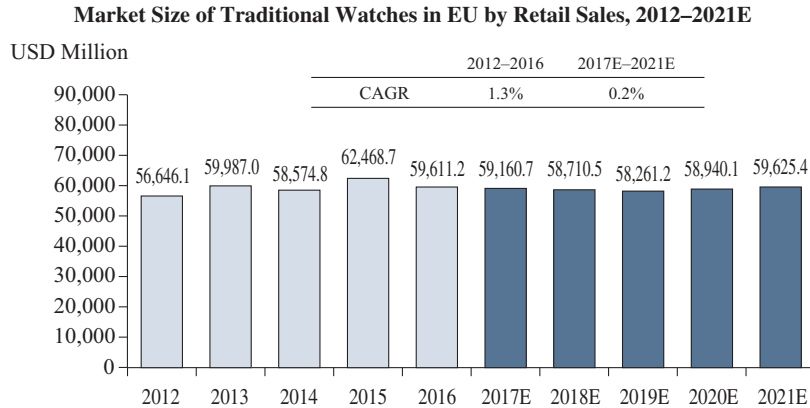
Source: Frost & Sullivan

Due to the strong demand for watches in Turkey in the past, import value of watches in Turkey from Hong Kong had grown at a moderate rate at a CAGR of approximately 12.5% from approximately USD0.5 million in 2012 to approximately USD0.8 million in 2016.

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EU

From 2012 to 2016, EU has experienced a sluggish economic growth due to a series of terrorist attacks which led to a drop in the number of Chinese tourists. Furthermore, the recent withdrawal of the UK from the EU is expected to postpone the recovery from Europe's current recession. Correspondingly, watch retail sales in EU recorded a mild growth from approximately USD56,646.1 million in 2012 to approximately USD59,611.2 million in 2016 or at a CAGR of approximately 1.3%. It is forecasted that the growth in watch retail sales in EU will remain at a mild pace from approximately USD59,160.7 million in 2017 to approximately USD59,625.4 million in 2021 or at a CAGR of approximately 0.2% in the same period due to the current economic recession in EU.



Source: Frost & Sullivan

The total value of watches imported from Hong Kong to EU declined from approximately USD446.8 million in 2012 to approximately USD402.7 million in 2016 or at a CAGR of approximately -2.6% principally due to weakening demand for watches from EU members with the struggling economies in Germany, Italy and France.

Market drivers for the global watch market

Rising demand for high quality-to-price watches

The slowdown in the global sales of luxury consumer products recently has given rise to high quality-to-price products. This is no exception for the global watch market. High quality-to-price watches offer high-quality materials and similar functions to the luxury watches but priced at a competitive level and targeting middle-class consumers. Though providing similar functions, high quality-to-price watches usually featured with quartz movement whilst luxury watches are generally handmade by skilled watch makers and equipped with in-house mechanical movements. In addition, luxury watches put more emphasis on finishing in particular the choice of materials for the bracelet or strap and decorations as compared to a high quality-to-price watches. Recently, there has been a rise in the number of micro watch brands worldwide which offer high quality-to-price watches tapping into emerging markets such as Brazil and therefore benefitting watch manufacturers which serve these markets and are able to produce high quality watches at competitive cost.

Rapidly changing consumer taste and requirement

The global watch market is highly competitive and therefore it is vital for watch manufacturers to stay innovative and come up with new and fashionable designs from time to time. Nowadays, consumers increasingly demand for watches with simple, elegant and luxurious designs given watches are seen as a symbol of a person's social status and success. The constantly and rapidly changing consumer preferences have been driving the continued innovations in technology and design of watches which provide a stable revenue stream and strong growth momentum for the global watch industry in both emerging and developed markets.

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Rising demand from e-commerce clients

E-commerce is one of the key drivers behind the rapid growth of global borderless trade. Business transactions are no longer bounded by geographical limitations. E-commerce has encouraged smarter decisions based on real-time data and more efficient operations in businesses. It has also enhanced the connectivity between manufacturers and brand owners, allowing brand owners to find the suitable factory in any location for the production of their products and facilitating international trade. It is expected that e-commerce will continue to impact the modern business world in easing and facilitating cooperation between brand owners, manufacturers and distributors as well as retailers. Hence, this trend provides a new source of revenue for watch manufacturers who are able to secure the orders from such e-commerce clients from time to time.

Challenges brought by the increasing popularity of smartwatch to traditional quartz and mechanical watch market

With evolving technology and improving functionality on smart wearable, the global smartwatch market has been growing at a strong pace in recent years, with total sales registering a CAGR of 18.9% from approximately USD6.3 billion in 2012 to approximately USD12.6 billion in 2016. Nevertheless, traditional watches and smartwatches have always been two distinct markets with different groups of target customers. Traditional watches have been undergoing a transformative phase in recent decade as wrist watch has been shifting from merely a device that tells time to a fashion accessory as consumers of traditional watches now pay more attention on the design and craftsmanship. Traditional wrist watches are becoming fashion accessories to both men and women in daily life as a demonstration of their status and character. Consumers tend to own more than one traditional wrist watches to match different outfits and styles. On the other hand, smartwatches focus on the technology with general functionality similar to a smartphone. Consumers tend to own more than one traditional wrist watches but they usually own only one smartwatch which synchronises with their smartphone. Thus, it is expected that the increasing popularity of smartwatches will not severely hit traditional watches in the medium to long term. Though the global market size of traditional watches recorded a slight decrease in 2016 as compared to 2015, the decrease was principally due to the decrease in watch exports from EU which was caused by the economic stagnation and geopolitical uncertainty in the region, and the impact brought by the increasing popularity of smartwatches to traditional watches is relatively minimal.

OVERVIEW OF WATCH MANUFACTURING INDUSTRY IN CHINA

Value chain

The value chain of watch manufacturing market in China consists of upstream, midstream and downstream participants. Watch components manufacturers source key raw materials, such as steel and glass, from relevant suppliers for component production. After procurement of the watch components, watch manufacturers design, develop, manufacture and assemble watches, on an OEM and/or ODM basis for customers including brand owners, wholesalers and retailers.

Market size analysis

The market size of watch manufacturing in China has recorded an increase from approximately RMB19.2 billion in 2012 to approximately RMB25.8 billion in 2016 or at a CAGR of approximately 7.7% in terms of revenue, which was primarily driven by the innovative technologies in upgrading design and production capacities of the industry players and expedited industrial transformation in China in different areas including intelligent and green production, quality improvement, optimization of structure and innovation-driven manufacturing of which was partially offset by the persistently weak global demand in 2015 and 2016. Nevertheless, as supported by the market drivers as identified and discussed in the paragraph headed “Market drivers for watch manufacturing market in China” in this section, the market size of watch manufacturing industry in China is estimated to grow from approximately RMB27.7 billion in 2017 to approximately RMB36.4 billion in 2021 at a CAGR of approximately 7.1%. The chart

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below sets forth the market size of the watch manufacturing in China over the period from 2012 to 2021:



Source: General Administration of Customs, Frost & Sullivan

Market drivers for watch manufacturing market in China

Innovative technologies in upgrading design and production capacities

In light of the rapidly changing consumers taste and increasing requirement of designs and functions on the watch products by customers, technologies applied in watch design and manufacturing are gradually upgraded from time to time. For example, an increasing number of watch makers are using 3D printing technologies to make prototypes. By utilising 3D printing technology, watch prototypes are designed on computer that is connected with 3D printers which produce three dimensional solid objects from a virtual design. The process cuts down the time and effort in crafting desired watch prototypes as compared with the traditional prototyping methods and expands design possibilities that fit to the ever-changing market needs. Such enhanced technologies are therefore able to shorten the product development cycle of the industry players and decision making time of their customers and enhance their turnover. These developments are expected to enhance the efficiency and innovative capacity of manufacturing industry, while saving resources and cost.

Expediting of industrial transformation

Along with the economic growth, manufacturing industry in China has also been evolving in a fast pace and gradually shifting the focus to value-added sectors. In view of the progressive industrialization and the increasing use of advanced technologies, the development of the manufacturing industry in China would continue to speed up. In particular, the development strategy of building China into a manufacturing powerhouse under the “Made in China 2025” (《中國製造2025》) initiative published by China’s State Council (中國國務院) in 2015 will be implemented in greater depth in order to enhance the innovation capabilities of the manufacturing industry and strengthen the industrial base in China. This includes manufacturing key basic materials and core parts and components, developing new-type manufacturing such as smart production, enhancing quality and brand building, as well as advancing traditional industries upgrading and eliminating outdated production capacities in order to add a new competitive edge to the manufacturing industry, including watch manufacturing industry in China. With the introduction of the “Made in China 2025”, more investment is expected to be made for the robotics machines, which will further stimulate automated production in various applications, including watches manufacturing. The watch manufacturing industry is forecasted to benefit from the supportive policies of government, due to the availability of advanced equipment and rising efficiency.

Surging demand for watches

Strong global demand and diversification of brands act as key drivers to the watch manufacturing industry in China. This optimistic outlook is based largely on rising asset values

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of consumers and healthier global economic growth. Watches have exhibited a strong penetration across various segments, from price tiers to various categories of watches, such as mechanical and quartz watches, which leads to the multifaceted development of the industry, from manufacturing to sales. Taking advantage of the cost effective production model and mature raw materials and component sourcing channels, the watch makers in China are able to operate efficiently on a complete manufacturing platform. Coupled with the rising demand for watches, the watch manufacturing industry in China is likely to enjoy continued growth in the future.

Market constraints for watch manufacturing market in China

Pressure of rising operational cost in China

As shown in the paragraph headed “Cost factor analysis” in this section below, watch manufacturing in China has been and will be facing the pressure of increasing labour costs. The profit margin of watch manufacturers in China heavily depends on the effectiveness of their cost control and therefore any substantial increase in labour costs shall pose a challenge to the industry players. Leading watch manufacturers in China usually utilise half-automated production and assembly lines to optimise the production efficiency and make themselves less reliant on manpower.

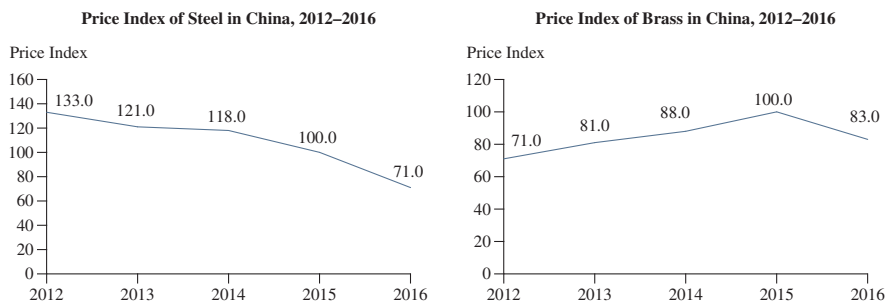
Lagging behind in research and development

A huge number of watch manufacturers in China are still serving famous international brands as OEM manufacturers and almost all the core production technologies are the intellectual properties of foreign companies. Besides, the watch manufacturing sector in China lacks sufficient investment in research and development, nurturing technological and innovative talents, not to mention investment in independent watch brands, supply and marketing networks, which altogether hinder the future growth of the watch manufacturing industry in China.

Increasingly fierce global competition

It is expected that watch manufacturers in China are going to face intense competition in the future with the increased number of new players from other developing countries, such as India and Vietnam which enjoy a competitive advantage in terms of lower cost. From the perspective of overall manufacturing industry in China, the growth rate of the Chinese above-scale industrial enterprises’ (with annual revenue over RMB100 million) finished goods declined year-by-year from 12.1% in 2012 to 3.0% in 2015 due to the increasingly severe competition faced by China’s manufacturing sector.

Cost factor analysis



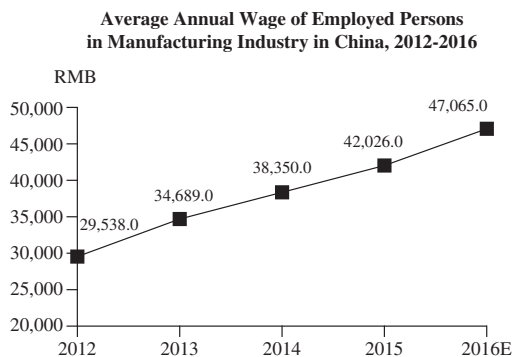
Source: Frost & Sullivan

Note: 2015 is the base year and the index is set to be 100

Watch cases and metal bracelets are generally made of steel while watch dials are generally made of brass. The price index of steel decreased from 133.0 in 2012 to 71.0 in 2016 mainly driven by the oversupply of such metals in China in the same years while the price index of brass experienced a mild increase from 71.0 in 2012 to 83.0 in 2016. In the upcoming future, the price indices of watch cases, bands and dials are expected to experience a mild drop at a CAGR

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of -0.9%, -0.8% and -0.2% respectively from 2018 to 2022 principally due to the expected decrease in the steel and brass manufacturing cost resulting from the improving production techniques of such materials.



Note: 2015 is the most updated official data.

Source: National Bureau of Statistics of the PRC, Frost & Sullivan

Driven by the strong demand for workers and the introduction of minimum salary standard by central and local government, the average annual wage of employed persons in the manufacturing industry in China has registered a substantial growth from RMB29,538.0 in 2012 to RMB47,065.0 in 2016, representing a CAGR of approximately 12.4%.

COMPETITIVE LANDSCAPE OVERVIEW OF THE WATCH MANUFACTURING MARKET IN CHINA

Overview

Overall speaking, the watch manufacturing industry in China is considered to be a mature market which has a sophisticated manufacturing supply chain. The Chinese watch manufacturing players are highly specialised with different expertise in various parts and components, for instances, the watch case, crown, hands, clock face, indexing, movements etc., are all produced by different specialised sub-contractors. The watch manufacturing industry in China is highly fragmented. There are over 1,000 watch manufacturers including OEM and ODM players as well as watch manufacturers with their own brands and other subcontractors in China, with strong presence of companies from Hong Kong, Taiwan and the U.S..

Based on the mechanism of movements, watches products can be broadly segmented into two categories, namely quartz watches and mechanical watches. Based on the retail prices, the global quartz movement watch market can be categorised into four segments, namely low-priced (below HK\$780), mid-priced (above HK\$780 but below HK\$5,460), high-priced (above HK\$5,460 but below HK\$11,700) and luxury (above HK\$11,700). Our Group principally manufactured and distributed quartz movement watches during the Track Record Period. To the best knowledge of our Directors, the retail price of the Group's quartz movement watches fall into the mid-priced segment during the Track Record Period. The low-priced and mid-end quartz movement watch manufacturing market segment contribute the largest proportion of over 70% of the entire watch manufacturing market in China in terms of revenue. Similar to the overall watch manufacturing industry in China, the mid-priced quartz movement watch manufacturing market is highly fragmented.

Factors of competition

Price

As discussed above, the watch manufacturing industry in China is considered to be in a mature stage where the players' focus shifts toward expense reduction and price competition as product differentiation declines. In light of the rising labour costs in China, domestic watch manufacturers have to effectively manage their production costs in order to maintain an acceptable profit margin and enhance the competitiveness of their products in the market.

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Craftsmanship and quality

As discussed above, consumers are continuously seeking high quality-to-price watches. To differentiate themselves from the peers and to be able to raise the selling price of their products to enjoy a higher profit margin in view of price competition, successful watch makers in China equip themselves with up-to-date quality control equipment and implement effective quality control system internally on the raw materials sourced from external suppliers and finished products manufactured internally through subcontractors.

Design capability

As discussed above, in light of the rapidly changing consumer taste and requirement in the global watch market, it is vital for watch manufacturers to stay innovative and come up with new and fashionable designs from time to time to secure sustainable orders and command a higher selling price from potential customers. Watch manufacturers with high design capabilities are more likely to place itself at a better market position and expand its customer base as such capability adds values to the customers who are always looking for a wide range of choices and offerings.

Manufacturing lead time

Nowadays, fast fashion has become the most contemporary norm in the fashion industry, including the watch and jewellery industry. Such norm is characterised by the emphasis on optimising certain aspects of the supply chain for most recent fashion trends to be designed and manufactured quickly and inexpensively to allow the mainstream consumer to buy current clothing and accessories styles on a timely basis and at a lower price. Therefore watch manufacturer who can speed up their production lead time shall benefit the most from the current industry practice.

Entry barriers

Research and development capability

As discussed above, in light of the rapidly changing consumer tastes and requirement in the global watch market, it is vital for watch manufacturers to possess strong design, research and development capabilities in order to secure sustainable orders and command a higher selling price from potential customers. Newcomers which lack capital may face difficulties equipping themselves with the most up-to-date equipment's and machinery for design, research and development and to employ experienced watch designers in the market. Without such capability, watch manufacturers can only act as the OEM for watch brand owners and compete with the industry peers by lowering prices and therefore may face difficulties sustaining their businesses in the mature watch manufacturing industry in China.

Long-established working relationship

As the watch manufacturing industry in China is relatively mature, the existing players tend to have established long term relationships with the stakeholders in the watch manufacturing industry, including suppliers, subcontractors and customers so as to ensure smooth and cost effective operations as well as high quality and stable supplies and better control on product quality of subcontractors. In addition, the watch manufacturers are able to collaborate with their clients in the development of products and share technical advices in the manufacturing process. However, new entrants who have insufficient industry experience and thus no reputation in the market may face difficulties earning the trust from stakeholders at the beginning and may require plenty of time and cost to establish long-term and stable cooperation relationships with different stakeholders.

High labour cost

As discussed above, labour cost in China has been increasing in the past and is expected to continue to increase in the future. The newcomers who have little reputation and bargaining power in the industry may face difficulties hiring labour and/or hiring at a lower cost. Such high labour cost is expected to pose a great financial burden on newcomers.

REGULATORY OVERVIEW

Given our operations are principally located in Hong Kong and the PRC and the sales from each of Hong Kong, Brazil, Turkey, UAE and EU accounted for over 5.0% of our total revenue in any of the years during the Track Record Period and in aggregate accounted for approximately 81.1% and 81.7% of our total revenue during the Track Record Period respectively, we set forth a summary of the major laws and regulations in Hong Kong and the PRC and trade related laws and regulations in Brazil, Turkey, UAE and EU.

HONG KONG LAWS AND REGULATIONS

Business registration

For our Group's business operations in Hong Kong, we are required to obtain business registration certificates issued by the Hong Kong Inland Revenue Department under the Business Registration Ordinance (Chapter 310 of the Laws of Hong Kong).

Sale of Goods

The Sale of Goods Ordinance (Chapter 26 of the laws of Hong Kong) governs, among other things, the scope of certain implied terms or conditions and warranties generally relating to the safety and suitability of goods supplied under a contract for the sale of goods in Hong Kong. Warranties relating to the safety and suitability of goods supplied include that goods for sale must be of merchantable quality and as such are, among other things, free from defects, safe and durable. A breach of warranty by the seller under the Sale of Goods Ordinance may entitle the buyer to reject the goods, set up against the seller a diminution or extinction of the price or maintain an action against the seller for damages.

Intellectual property

Trade Marks Ordinance

The Trade Marks Ordinance (Chapter 559 of the laws of Hong Kong) is a statute enacted to make provision in respect of the registration of trademarks and for connected matters. The Trade Marks Ordinance provides (among other things) that a person infringes a registered trademark if the person uses in the course of trade or business a sign which is:

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

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

The Trade Marks Ordinance also provides that a person shall be treated as a party to any use of the material which infringes the registered trademark if he/she:

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

Under the Trade Marks Ordinance, the owner of a trademark is entitled to bring infringement proceedings against a person infringing his or her trademark or damages, injunctions, accounts and any other relief available in law.

Employment

Employees' compensation

The Employees' Compensation Ordinance (Chapter 282 of the Laws of Hong Kong) lays down the rights and obligations of employers and employees in respect of injuries or death caused by accidents arising out of and in the course of employment, or by prescribed occupational diseases under the Employees' Compensation Ordinance. The Employees' Compensation Ordinance applies equally to full-time and part-time employees who are employed under service contracts or apprenticeships.

If an employee sustains an injury or dies as a result of an accident arising out of and in the course of employment, the employer is generally liable to pay compensation under the Employees' Compensation Ordinance even if the employee might have committed acts of faults or negligence when the accident occurred. Similarly, an employee who suffers incapacity or dies arising from an occupational disease is entitled to receive the same compensation as that payable to employees injured in occupational accidents.

Under section 40 of the Employees' Compensation Ordinance, all employers (including contractors and subcontractors) are obliged to take out insurance policies to cover their liabilities both under the Employees' Compensation Ordinance and at common law for injuries at work in respect of all their employees. An employer who fails to comply with the Employees' Compensation Ordinance to secure an insurance cover is liable on conviction to a fine of HK\$100,000 and imprisonment for 2 years.

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Minimum wage

The Minimum Wage Ordinance (Chapter 608 of the Laws of Hong Kong) provides for a prescribed minimum hourly wage rate, currently set at HK\$34.5 per hour, during the wage period for every employee engaged under a contract of employment under the Employment Ordinance.

Any provision of an employment contract which purports to extinguish or reduce the right, benefit or protection conferred on the employee by the Minimum Wage Ordinance is void.

THE PRC LAWS AND REGULATIONS

Laws and regulations relating to the wholly foreign-owned enterprise

The establishment, operation and management of corporate entities in the PRC are governed by the Company Law of the PRC (中華人民共和國公司法) (the “**Company Law**”), which was adopted by the Standing Committee of the National People’s Congress (全國人民代表大會常務委員會) (the “**SCNPC**”) on 29 December 1993 and became effective on 1 July 1994. It was last amended on 28 December 2013 and became effective from 1 March 2014. According to the Company Law, where laws on foreign investment have different stipulations, such stipulations shall prevail. According to the Implementing Opinion on Several Issues Concerning the Application of Law in the Administration of the Examination, Approval and Registration of Foreign-invested Companies (關於外商投資的公司審批登記管理法律適用若干問題的執行意見) issued jointly by the State Administration for Industry and Commerce (中華人民共和國國家工商行政管理總局) (the “**SAIC**”), the Ministry of Commerce of the People’s Republic of China (中華人民共和國商務部) (the “**MOFCOM**”), the General Administration of Customs (中華人民共和國海關總署) and the State Administration of Foreign Exchange (國家外匯管理局) (the “**SAFE**”) on 24 April 2006 and became effective on the same day, the organisation structure of limited liability companies in the form of a foreign equity joint venture, wholly foreign-owned limited liability company or foreign invested joint stock limited company shall comply with the provisions of the Company Law and the articles of associations. The establishment procedures, approval procedures, registered capital requirements, foreign currency exchange, accounting practices, taxation, labour, employment and all other relevant matters of a wholly foreign-owned enterprise are regulated by the Wholly Foreign-owned Enterprise Law of the PRC (中華人民共和國外資企業法) (the “**Wholly Foreign-owned Enterprise Law**”), which was promulgated on 12 April 1986 and latest amended on 3 September 2016, and the Implementation Rules to the Wholly Foreign-owned Enterprise Law of the PRC (中華人民共和國外資企業法實施細則) which was promulgated on 12 December 1990 and latest amended on 19 February 2014.

The Interim Measures for the Recordation Administration of the Formation and Modification of Foreign-invested Enterprises (外商投資企業設立及變更備案管理暫行辦法) (the “**Measures**”) which was promulgated by the MOFCOM on 8 October 2016 and was subsequently amended on 30 July 2017, further simplifies the formation and modification procedure for foreign-invested enterprises. Pursuant to the Measures, the formation and modification of foreign-invested enterprises which do not involve the implementation of special administrative

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measures for access as prescribed by the state, shall apply to the Measures. According to the Measures, where a foreign-invested enterprise which is subject to recordation as prescribed in the Measures undergoes any of the specified modifications, the foreign-invested enterprise shall, within 30 days after the occurrence of the modification, submit for the recordation in respect of the modification.

Policies and regulations relating to the watch manufacturing industry

Investment in the PRC conducted by foreign investors and foreign-owned enterprises shall comply with the Guidance Catalog of Industries for Foreign Investment (外商投資產業指導目錄) (the “**Foreign Investment Catalog**”), which was jointly promulgated by the MOFCOM and the National Development and Reform Commission (中華人民共和國發展與改革委員會) (the “**NDRC**”) and amended from time to time by these two government authorities. The Foreign Investment Catalog contains specific provisions guiding market access of foreign capital, stipulating in detail different areas of entry pertaining to the categories, which includes encouraged foreign-invested industries, restricted foreign invested industries and prohibited foreign investment industries.

Pursuant to the Provisions for Guiding the Foreign Investment Direction (指導外商投資方向規定), projects with foreign investment shall fall into either one of the four categories, namely encouraged, permitted, restricted or prohibited ones. Projects with foreign investment that are encouraged, restricted or prohibited shall be listed in the Foreign Investment Catalog. Projects with foreign investment that are not listed as encouraged, restricted or prohibited projects are permitted projects. Permitted projects with foreign investment shall not be listed in the Foreign Investment Catalog.

Our Group engages in the designing and manufacturing of watch products, according to the current effective version of the Foreign Investment Catalog (2017 Version) which was promulgated on 28 June 2017 and became effective on 28 July 2017, our group’s business falls within the permitted foreign-invested industry.

Laws and regulations relating to environment protection

General regulations

The Environmental Protection Law of the PRC (中華人民共和國環境保護法), which was promulgated on 26 December 1989 and amended on 24 April 2014 and became effective on 1 January 2015 by the SCNPC, provides that enterprises causing environmental pollution and other public nuisances shall adopt effective measures to avoid and control the pollution and damage caused to the environment. Pollution prevention facilities in construction projects shall be designed, built and put into operation together with the main part of the project. Construction projects can only be put into operation after the environmental protection authority has examined and approved the pollution prevention facilities.

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Environmental impact appraisal

The Regulations on the Administration of Construction Project Environmental Protection (建設項目環境保護管理條例) (the “**Environmental Protection Management for the Construction Project Regulations**”) was promulgated by the State Council on 29 November 1998, amended on 16 July 2017 and became effective on 1 October 2017. The Law of the PRC on Appraising of Environmental Impacts (中華人民共和國環境影響評價法) was promulgated by the SCNPC on 28 October 2002, and amended on 2 July 2016 and became effective on 1 September 2016. According to such laws and regulations for any project the construction of which may have a material impact on the environment, an environmental impact report which thoroughly appraises the environmental impact is required; for any project which may have a slight impact on the environment, an environmental impact statement analyzing or appraising the specific environmental impact is required; and for any project which may have minimal impact on the environment, an environmental impact appraisal is not required but filing of an environmental impact registration form is required. The construction unit must submit the aforesaid environmental impact appraisal documents to the relevant administrative departments of environmental protection for examination and approval before the construction project started to build. For any enterprise which fails to submit the aforesaid environmental impact appraisal documents according to the PRC laws and regulations or if the documents are not approved after examination by the relevant administrative departments, the departments responsible for approving the relevant project will not approve such project and the enterprise shall not commence the construction of the project. In addition to the environmental appraisal before the commencement of the construction project, pursuant to the Environmental Protection Management for the Construction Project Regulations, the construction unit shall, upon completion of a construction project, file an application with the competent department of environmental protection administration that examine and approve the said construction project environmental impact report, environmental impact statement or environmental impact registration form for acceptance checks on completion of construction of environmental protection facilities that are required for the said construction project.

Laws and regulations relating to taxation

Enterprise income tax

According to the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法) (the “**EIT Law**”) which was promulgated by the National People’s Congress of the PRC on 16 March 2007 and amended by the SCNPC on 24 February 2017, and its Implementing Regulations (中華人民共和國企業所得稅法實施條例), which was promulgated by the State Council on 6 December 2007 and became effective on 1 January 2008, enterprises are classified into resident enterprises and non-resident enterprises. According to the EIT law and its Implementing Regulations, resident enterprises are applied for an unified EIT rate of 25%.

Pursuant to the Announcement of the State Administration of Taxation (國家稅務總局) (the “**SAT**”) on Several Issues Concerning the Enterprise Income Taxes on the Indirect Transfer of Properties 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

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告) promulgated and with effect from 3 February 2015 (“**Circular 7**”), where a non-resident enterprise indirectly transfers equities and other properties of a Chinese resident enterprise (“**PRC Taxable Properties**”) to evade its obligation of paying EIT by implementing arrangements that are not for bona fide commercial purpose, such indirect transfer shall be re-identified and recognised as a direct transfer of equities and other properties of the Chinese resident enterprise, in accordance with the provisions of Article 47 of the EIT Law. PRC Taxable Properties in Circular 7 include properties of a PRC entity or establishment located in the PRC, real estate in the PRC and an equity investment in a PRC resident enterprise, that are directly held by a non-resident enterprise and proceeds from such transfer shall be subject to EIT in the PRC in accordance with the PRC tax laws. An indirect transfer of PRC Taxable Properties refers to a transfer by a non-resident company of an equity interest or other similar right or interest in an overseas enterprise (excluding the PRC resident enterprise registered overseas) (the “**Overseas Enterprises**”) that in turn directly or indirectly holds the PRC Taxable Properties, which effectively has the same or a similar effect as a direct transfer of such PRC Taxable Properties. Circular 7 also provides that an indirect transfer of PRC Taxable Properties, which satisfies one of the following conditions, will not be subject to the aforesaid provisions:

- a non-resident enterprise buys and sells the shares of one same overseas listed company in a public stock exchange; or
- if the non-resident enterprise directly held and transferred PRC Taxable Properties, the proceeds derived thereof would be exempt from EIT under the applicable tax treaty or arrangement.

Value-added tax

Pursuant 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 Stated Council on 13 December 1993 and last amended on 19 November 2017 and its implementing rules (中華人民共和國增值稅暫行條例實施細則) which was promulgated by the Ministry of Finance (中華人民共和國財政部) on 25 December 1993, became effective on 1 January 1994 and last amended on 28 October 2011, respectively, tax payers engaging in sale of goods, provision of processing services, repairs and replacement services or importation of goods within the territory of the PRC shall pay value-added tax (the “**VAT**”). Unless stated otherwise, the rate of VAT for tax payers selling goods and selling services is respectively 17% and 6%.

According to the Notice of the Ministry of Finance and the State Administration of Taxation on Adjusting Value-added Tax Rates (財政部、稅務總局關於調整增值稅稅率的通知), which was promulgated on 4 April 2018 and became effective on 1 May 2018, the VAT rate of 17% applicable to any taxpayer’s VAT taxable sale or import of goods shall be adjusted to 16%.

Transitioning from business tax to value-added tax

The Circular of the Ministry of Finance and the State Administration of Taxation on Comprehensively Promoting the Pilot Program of the Collection of Value-added Tax in Lieu of

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Business Tax (財政部、國家稅務總局關於全面推開營業稅改征增值稅試點的通知) was jointly promulgated by the MOFCOM and the SAT on 23 March 2016. Upon approval of the State Council, the pilot program of the collection of VAT in lieu of business tax shall be promoted nationwide in a comprehensive manner as of May 1, 2016, and all taxpayers of business tax engaged in the modern service industry shall be included in the scope of the pilot program with regard to payment of VAT in lieu of business tax. Pursuant to the Decision of the State Council on Repealing Interim Regulation of the People's Republic of China on Business Tax and Amending Interim Regulation of the People's Republic of China on Value Added Tax (國務院關於廢止《中華人民共和國營業稅暫行條例》和修改《中華人民共和國增值稅暫行條例》的決定) was promulgated by the Stated Council on 19 November 2017, the business tax had been abolished.

Export Tax Rebate

For the purpose of avoiding double taxation on exported commodities, the PRC government practices the tax rebate system in connection with foreign trade export commodities, that is, paying back the VAT to the enterprises on the basis of different product tax rebate. According to the Circular of the SAT on Issuing the Measures for the Administration of Tax Refund (Exemption) of Exported Goods (Trial Implementation) (出口貨物退(免)稅管理辦法(試行)) promulgated by the SAT on 16 March 2005 and came into effect on 1 May 2005, as regards to goods exported by an exporter or goods exported thereby upon entrustment, except as otherwise specified, after export customs declaration and financial accounting for sales, the exporter may report to the office of the state taxation bureau at the domicile for the approval of rebate or exemption of VAT or consumption tax with the relevant vouchers.

According to the Provisional Regulations on VAT and the Notice of the Ministry of Finance and the SAT on the Policies of Value-added Tax and Consumption Tax Applicable to Exported Goods and Services (財政部、國家稅務總局關於出口貨物勞務增值稅和消費稅政策的通知) which was promulgated on 25 May 2012 and amended on 9 December 2014, goods and services exported by export-oriented enterprises shall be eligible for VAT exemption and rebate policies. In accordance with the regulations the self-produced goods shall be exempt from VAT, the corresponding input VAT shall be credited against out VAT (excluding the VAT payable which applies to the policy of “refund immediately after payment” or “refund after payment”), and the remainder shall be refunded.

Laws and regulations relating to dividend distribution

Under the Wholly Foreign-owned Enterprise Law, foreign-invested enterprises in the PRC may pay dividends only out of their accumulated profits, if any, determined in accordance with the PRC accounting standards and regulations. In addition, wholly foreign-owned enterprises in the PRC are also required to allocate at least 10% of their respective accumulated profits after tax each year, if any, to certain reserve funds unless these accumulated reserves have reached 50% of the registered capital of such enterprises. These reserves are not distributable as cash dividends.

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According to the EIT Law and its implementing rules, dividends paid to investors of an eligible PRC resident enterprise can be exempted from the EIT and dividends paid to foreign investors are subject to a withholding tax rate of 10%, unless relevant tax agreements entered into by the PRC government provide otherwise.

The PRC and the government of Hong Kong entered into the Arrangement between the Mainland of the PRC and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Incomes (內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排) (the “**Arrangement**”) on 21 August 2006. According to the Arrangement, 5% withholding tax rate shall apply to the dividends paid by a PRC company to a Hong Kong resident, provided that such Hong Kong resident directly holds at least 25% of the equity interests in the PRC company, and 10% of withholding tax rate shall apply if the Hong Kong resident holds less than 25% of the equity interests in a PRC company.

Pursuant to the Circular on Relevant Issues Relating to the Implementation of Dividend Clauses in Tax Treaties (關於執行稅收協定股息條款有關問題的通知), all of the following requirements shall be satisfied where a fiscal resident of the other party to a tax agreement needs to be entitled to such tax agreement treatment as being taxed at a tax rate specified in the tax agreement for the dividends paid to it by a PRC resident company: (i) such a fiscal resident who obtains dividends should be a company as provided in the tax agreement; (ii) owner’s equity interests and voting shares of the PRC resident company directly owned by such a fiscal resident reaches a specified percentage; and (iii) the equity interests of the PRC resident company directly owned by such a fiscal resident, at any time during the twelve months prior to obtaining the dividends, reach a percentage specified in the tax agreement.

According to the Administrative Measures on Tax Convention Treatment for Non-Resident Taxpayers (非居民納稅人享受稅收協定待遇管理辦法) (the “**Tax Convention Treatment**”), which was promulgated by the SAT on 27 August 2015 and became effective on 1 November 2015, where a non-resident enterprise that receives dividends from a PRC resident enterprise, it could directly enjoy the favourable tax benefits under the tax arrangements at tax returns, and subject to the subsequent regulation of the competent tax authority. Under the Tax Convention Treatment, when the non-resident taxpayers or their withholding agents make declarations to the relevant tax authority, they should deliver the relevant reports and materials to the tax authority and such non-resident taxpayers and withholding agents will be subject to the follow-up management of the tax authority.

Laws and regulations relating to labour

Pursuant to the PRC Labour Law (中華人民共和國勞動法) promulgated on 5 July 1994 with effect from 1 January 1995, and amended on 27 August 2009, as well as the PRC labour Contract Law (中華人民共和國勞動合同法) promulgated on 29 June 2007, amended on 28 December 2012 and effective from 1 July 2013, as well as the Implementation Regulations of the PRC Labour Contract Law (中華人民共和國勞動合同法實施條例) which was promulgated on 18 September 2008, if an employment relationship is established between an entity and its

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employees, written labour contracts shall be executed between them. The relevant laws stipulate the maximum number of working hours per day and per week, respectively. Furthermore, the relevant laws also set forth the minimum wages. The entities shall establish and develop systems for occupational safety and sanitation, implement the rules and standards of the PRC government on occupational safety and sanitation, educate employees on occupational safety and sanitation, prevent accidents at work and reduce occupational hazards.

Pursuant to the Social Insurance Law of the PRC (中華人民共和國社會保險法), which was promulgated by the SCNPC on 28 October 2010 and became effective on 1 July 2011, all employees are required to participate in basic pension insurance, basic medical insurance schemes and unemployment insurance, which must be contributed by both the employers and the employees. All employees are required to participate in work-related injury insurance and maternity insurance schemes, which must be contributed by the employers. Employers are required to complete registrations with local social insurance authorities. Moreover, the employers must timely make all social insurance contributions. Except for mandatory exceptions such as force majeure, social insurance premiums may not be paid late, reduced or be exempted. Where an employer fails to make social insurance contributions in full and on time, the social insurance fund contribution collection agencies shall order it to make all or outstanding contributions within a prescribed period and impose a late payment fee at the rate of 0.05% per day of outstanding amount from the date on which the contribution becomes due. If such employer fails to make the overdue contributions within such time limit, the relevant administrative department may impose a fine equivalent to 1–3 times the overdue amount.

Pursuant to the Administrative Regulations on the Housing Provident Fund (住房公積金管理條例) effective from 3 April 1999, and amended on 24 March 2002, enterprises are required to register with the competent administrative centers of housing provident fund and open bank accounts for housing provident funds for their employees. In addition, for both employees and employers, the payment rate for housing provident fund shall not be less than 5% of the average monthly salary of the employees in the previous year. Employers are also required to timely pay all housing fund contributions for their employees. Where an employer fails to submit and deposit registration of housing provident fund or fails to go through the formalities of opening housing provident fund accounts for its employees, the housing provident fund management center shall order it to go through the formalities within a prescribed time limit. Failing to do so at the expiration of the time limit will subject the employer to a fine of not less than RMB10,000 and up to RMB50,000. When an employer fails to pay housing provident fund due in full and in time, housing provident fund center is entitled to order it to rectify, failing to do so would result in enforcement exerted by the court.

Laws and regulations relating to work safety and product quality

Work safety

The Production Safety Law of the PRC (中華人民共和國安全生產法) (the “**Production Safety Law**”) was promulgated by the SCNPC on 29 June 2002 and amended on 27 August 2009 and 31 August 2014 and became effective on 1 December 2014. The Production Safety Law

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provides safety standards for any production or business operation in order to prevent and reduce safety accidents, defend the safety of life and property of the masses. The State Administration of Work Safety (國家安全生產監督管理總局) established by the State Council exercises comprehensive supervision and control over work safety throughout the country. The work safety supervision and administration departments of local governments at the county level and above are responsible for supervision and administration of production safety within their respective local jurisdiction.

Enterprises are required to set up and maintain appropriate equipment, monitor the safety of production procedures, assign designated personnel, conduct workplace safety training and undertake all other measures required by the law to ensure the safety of employees and the general public. Any responsible individual or enterprise that fails to perform its duty to meet the safety production standards may be ordered to rectify within a prescribed period and/or pay a fine. Failure to rectify within the prescribed period may result in suspension or shutdown of the business. Serious violations that result in any production safety accident may impose criminal liabilities to the responsible individuals.

Product quality

Product quality supervision in the PRC is generally governed by Product Quality Law, which was promulgated on 22 February 1993 and latest amended on 27 August 2009. Producers and sellers shall be liable for product quality in accordance with the Product Quality Law. Under the Product Quality Law, producers shall have its own proper regulations for the management of product quality, rigorously implementing post-oriented quality regulations, quality liabilities and relevant measures for their assessment. The marks on the products or the package of products shall be true to the fact and satisfy the requirements listed in the Product Quality Law.

According to the Product Quality Law, consumers or other victims who suffer personal injury or property damage due to product defects may claim compensation from the producer as well as the seller. The producer and the seller shall be jointly liable for the compensation. In case of violations of the Product Quality Law, the responsible authorities have the right to impose fines on the violators, order them to suspend operation, and revoke their business licenses. In serious cases, even criminal liability may be incurred.

Laws and regulations relating to foreign exchange

Foreign exchange

Pursuant the Administrative Regulations of the PRC on Foreign Exchange (中華人民共和國外匯管理條例) promulgated by the State Council on 29 January 1996 and last amended on 5 August 2008, and various regulations issued by the SAFE and other PRC regulatory agencies, foreign currency could be exchanged or paid through two different accounts, namely current account and capital account. Payment of current account items, including commodity, trade and service-related foreign exchange transactions and other current payment, may be made by conversion between Renminbi and foreign currencies without approval of the SAFE, but are

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subject to procedural requirements including presenting relevant documentary evidence of such transactions. Capital account items, such as direct equity investment, loans and repatriation of investment, require the prior approval from or registration with the SAFE or its local branch for conversion between Renminbi and the foreign currency, and remittance of the foreign currency outside the PRC.

SAFE circular 59

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) (“**SAFE Circular 59**”), which became effective on 17 December 2012 and was amended on 4 May 2015. SAFE Circular 59 substantially amends and simplifies the current foreign exchange procedure. According to SAFE Circular 59, the opening of various special purpose foreign exchange accounts (e.g. pre-investment expenses account, foreign exchange capital account, asset realisation account, guarantee account) no longer requires SAFE’s approval. Furthermore, multiple capital accounts for the same entity may be opened in different provinces, which was not possible before the issuance of SAFE Circular 59. Reinvestment of lawful incomes derived by foreign investors in the PRC (e.g. profit, proceeds of equity transfer, capital reduction, liquidation and early repatriation of investment) 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.

SAFE circular 19

According to SAFE Circular 19, the foreign exchange capital of foreign-invested enterprises shall be subject to a discretionary foreign exchange settlement (the “**Discretionary Foreign Exchange Settlement**”). The Discretionary Foreign Exchange Settlement refers to the foreign exchange capital in the capital account of a foreign-invested enterprises for which the rights and interests of monetary contribution has been confirmed by the local foreign exchange bureau (or the book-entry registration of monetary contribution by the banks) and can be settled at the banks based on the actual operational needs of the foreign-invested enterprises. The proportion of Discretionary Foreign Exchange Settlement of the foreign exchange capital of a foreign-invested enterprises is temporarily determined as 100%. Renminbi converted from a foreign exchange capital will be kept in a designated account and if a foreign-invested enterprises needs to make further payment from such account, it still needs to provide supporting documents and go through the review process with the banks. Furthermore, SAFE Circular 19 stipulates that the use of capital by foreign-invested enterprises shall follow the principles of authenticity and self-use within the business scope of enterprises. The capital of a foreign-invested enterprises and capital in Renminbi obtained by the foreign-invested enterprises from foreign exchange settlement shall not be used for the following purposes:

- directly or indirectly used for the payment beyond the business scope of the enterprises or the payment prohibited by relevant laws and regulations;

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- directly or indirectly used for investment in securities unless otherwise provided by relevant laws and regulations;
- directly or indirectly used for granting the entrust loans in Renminbi (unless permitted by the scope of business), repaying the inter-enterprise borrowings (including advances by the third party) or repaying the bank loans in Renminbi that have been sub-lent to the third party; and
- paying the expenses related to the purchase of real estate that is not for self-use (except for the foreign-invested real estate enterprises).

SAFE circular 13

Pursuant to Circular on Further Simplifying and Improving the Direct Investment-related Foreign Exchange Administration Policies (關於進一步簡化和改進直接投資外匯管理政策的通知) (the “**SAFE Circular 13**”), which was promulgated by SAFE on 13 February 2015 and became effective on 1 June 2015, the foreign exchange registration under domestic direct investment and the foreign exchange registration under overseas direct investment will be directly reviewed and handled by banks in accordance with SAFE Circular 13, and SAFE and its branches shall perform indirect regulation over the foreign exchange registration via banks.

Laws and regulations relating to import and export goods

Pursuant to the Foreign Trade Law of the PRC (中華人民共和國對外貿易法), which was promulgated on 12 May 1994 and latest amended on 7 November 2016, and the Measures for the Record keeping and Registration by Foreign Trade Dealers (對外貿易經營者備案登記辦法), which was promulgated on 25 June 2004 and became effective on 1 July 2004 and was amended on 18 August 2016, foreign trade dealers who engage in the import or export of goods or technologies shall register with the MOFCOM or its authorised bodies unless such registration is not required under the laws and administrative regulations and/or by the MOFCOM.

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 latest amended on 4 November 2017 by the SCNPC. The Customs 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 violating such law. According to the Customs Law, unless otherwise stipulated, the declaration of import and export goods may be completed by consignees and consignors themselves, and such formalities may also be completed by their entrusted Customs brokers that have registered with the Customs. In addition, the consignor or consignee of the goods exported or imported and the Customs broker must register themselves for declaration activities with the Customs office.

The Law of the PRC on Import and Export Commodity Inspection (中華人民共和國進出口商品檢驗法) (the “**Import and Export Commodity Inspection Law**”) was promulgated by the SCNPC on 21 February 1989 and latest amended on 27 April 2018 and the Regulations for the Implementation of the Law of the PRC on Import and Export Commodity Inspection (中華人民

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共和國進出口商品檢驗法實施條例) was promulgated by the State Council on 31 August 2005 and latest amended on 1 March 2017. The main objectives of the Import and Export Commodity Inspection Law and its implementation regulations are to strengthen the inspection of, and ensure the quality of, import and export commodities, to protect the lawful rights and interests of the parties involved in foreign trade, and to promote the smooth development of China's economic and trade relations with foreign countries. The General Administration of Quality Supervision, Inspection and Quarantine of the PRC (國家質量監督檢驗檢疫總局) (the "GAQSIQ") oversees inspections of import and export commodities throughout the country, while local import and export commodity inspection authorities shall be in charge of the inspections of import and export commodities within areas under their jurisdiction. Pursuant to the Import and Export Commodity Inspection Law and its implementation regulations, the GAQSIQ shall publish from time to time a catalogue of import and export commodities which shall be subject to the compulsory inspection by the commodity inspection authorities. Such inspections, among others, cover quality, specifications, quantity, weight and packaging and requirements for safety, hygiene, health, environmental protection and anti-fraud protection and are implemented in accordance with the compulsory standards under the Import and Export Commodity Inspection Law and other inspection standards. Any violation of the relevant provisions of the Import and Export Commodity Inspection Law may result in fines, confiscation of illegal income, and other penalties. Serious violations may subject the responsible individual or enterprise to criminal liabilities.

BRAZIL LAWS AND REGULATIONS

Import transactions in Brazil are subject to regulation, authorisation and inspection by the Ministry of Finance's Federal Revenue Secretariat (Secretaria da Receita Federal – SRF) and the Ministry of Development, Industry and Foreign Trade (MDIC)'s Foreign Trade Secretariat (Secretaria do Comercio Exterior – SECEX). Import procedures are conducted electronically by means of the Integrated System for International Trade (Sistema Integrado de Comercio Exterior), known as the SISCOMEX – an electronic system through which customs clearance and import licensing operations are processed.

In order to obtain access to SISCOMEX, the importers/exporters must request to the Brazilian tax authorities an authorisation to operate in the system through a password that is granted by the SRF after an administrative procedure of documental verification ("RADAR"). The procedures to obtain the RADAR are regulated by Normative Instruction 1,603/2015 and COANA Ordinance No. 123/2015.

According to the referred regulations, importers/exporters may be subject to the Express, Limited or to Unlimited Registrations, depending on the amount of the transactions and the frequency in which they intend to perform foreign trade transactions, as follows:

- Express: for publicly held corporations, for legal entities authorised to operate under the Authorised Economic Operator regime, for public entities, for legal entities that

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intend to perform export transactions without limitation of value and import transactions whose value, within a 6-month term is up to USD50,000.00, among others;

- Limited: for legal entities whose financial capacity allows them to perform import transactions within a 6-month term that ranges between USD50,000.00 and USD150,000.00; and
- Unlimited: for legal entities whose financial capacity allows them to perform import transactions that exceed USD150,000.00 in terms of value.

There are three kinds of imports depending on the classification of products: (i) those not subject to any kind of licensing; (ii) those automatically licensed; and (iii) those not automatically licensed. To confirm the licensing requirement applicable to a specific product, the Brazilian importer must consult SISCOMEX, which will inform, based on the tariff classification of the product, whether or not the product is subject to licensing. As a general rule, watch parts or SKD kits are subject to automatic licensing; the exception relates to leather straps made of wild animals, which require an import license from IBAMA - Brazilian Institute of Environment and Natural Resources.

The importation of certain goods not subject to licensing does not need any authorisation from the Brazilian authorities prior to shipment thereof to Brazil or clearance through Customs. Products imported under the temporary admission regime and products entitled to a reduction of the import duty through an “Ex-Tarifário” are not subject to licensing. In this case, the Brazilian importer must register only the Import Declaration when the products undergo customs clearance.

On the other hand, the non-automatic licensed imports are subject to prior examination and special control by certain governmental agencies. The non-automatic licensing must necessarily occur before the shipment of goods from abroad. In special circumstances, such as importing goods under the bonded warehouse regime and upon automatic licensed imports, the import may be subject to prior examination and special control by certain government agencies after the goods are shipped but before these go through customs clearance procedures.

Apart from registration and licensing, Brazil applies import duties as well as a wide range of indirect taxes on imports. Import duties are Brazil’s primary instrument to regulate imports. As a Mercosur member, Brazil utilises the Mercosur Common Nomenclature (NCM) classification, which is consistent with the Harmonised System (HS) classification. In general, the customs value of goods is determined on a CIF (cost, insurance and freight) basis. Most imports from non-Mercosur members are subject to Mercosur’s Common External Tariff (CET) which ranges from zero to 35%.

Besides the Import duties, products imported and/or circulated in Brazil are also subject to Federal Excise Tax (IPI), State Value Added Tax (ICMS), Social Integration Tax (PIS) and Social Contribution Tax (COFINS), and Maritime Transport Fee (AFRMM), due on the value of freight

REGULATORY OVERVIEW

(usually at the rate of twenty-five percent 25%). The IPI is a federal tax levied on most domestic and imported manufactured products. The IPI rates range depending on the essentiality of the products, and the same rates apply for domestically produced and imported goods. On the other hand, ICMS is a state government value-added tax applicable to both imports and domestic products. Currently, ICMS rates range from zero to 25%, but are generally levied at a rate of 18% in the State of São Paulo. In addition, social contributions are levied at the federal level. They include the contribution for the social integration programme (PIS) and the social security contribution (COFINS). PIS/COFINS Import is levied at a combined rate of 11.75%.

Import duty and the applicable indirect taxes are based on the customs value of the imported product. Based on the customs valuation rules, insurance and freight must be added for determination of the customs value of the imported products.

Under the IPI regulations, watches imported into Brazil must obtain a control stamp issued by the Federal Revenue Department prior to their commercialization within Brazil. The IPI regulations apply to local importers of watches.

From the consumer law perspective, the Brazilian consumer legislation requires that the name of the country of origin on each imported article be included on the product's label, packaging and brand. Products for domestic consumption must also comply with specific requirements established by the Consumer Defense Code, which requires any product that could cause harm to consumer health or safety to include a clear and exhaustive description of any potential hazards. Brazil also has specific labelling requirements for a range of products, regulated by various agencies.

The aforesaid Brazil laws and regulations are applicable to local importers, and since we deliver our products to our Brazilian customers on the basis of "FOB – Hong Kong", the aforesaid Brazil laws and regulations are not directly applicable on us and only applicable on our Brazilian customers, being the local importers. Since such local importers have to comply with the relevant overseas laws and regulations, our Group is normally expected to comply with, and the importers will issue such purchase orders to us for watch products that conform with applicable specifications and quality standards such that the relevant products will be able to comply with the relevant overseas regulations in relation to product liability and quality control of imported products. During the Track Record Period and up to the Latest Practicable Date, we had no material disputes with and had no material complaints received from our Brazilian customers regarding the importation of our products in Brazil.

EUROPEAN UNION ("EU") LAWS AND REGULATIONS

All EU member states adopt common external trade policy and measures. Meanwhile, 19 EU members, namely Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Slovenia and Spain, have adopted the Euro as their legal tender.

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Product-related Requirements

The EU has adopted a number of legal instruments for the protection of health and environmental protection, which, *inter alia*, ban and restrict the use of certain substances in consumer goods, e.g. the Directive on Restriction of Hazardous Substances (RoHS), which prohibits, for example, lead in electrical and electronic equipment and the REACH Regulation which prohibits, for example, the placing on the market of watches and jewellery coming into direct contact with the skin, if they contain and release certain amounts of nickel. Other Directives impose reporting and take-back obligations on importers, such as the Directive on Waste Electrical and Electronic Equipment (WEEE) and the Batteries Directive. These legal instruments cover a wide range of consumer goods and consumer electronics and may have an impact on sales.

Consumer goods must comply with certain labeling requirements, e.g., for electrical and electronic equipment, the CE marking and the wheeled bin; a type, batch or serial number; the manufacturer's name, trade name or trade mark. Further product-related requirements apply, depending on the product, e.g. products communicating by means of radio waves must meet certain "essential requirements" imposed by the Radio Equipment Directive, and the manufacturer must prepare a declaration of conformity and a technical documentation.

The aforesaid EU laws and regulations are applicable to local importers, and since we deliver our products to our EU customers on the basis of "FOB – Hong Kong", the aforesaid EU laws and regulations are not directly applicable on us and only applicable on our EU customers, being the local importers. Since such local importers have to comply with the relevant overseas laws and regulations, our Group is normally expected to comply with, and the importers will issue such purchase orders to us for watch products that conform with applicable specifications and quality standards such that the relevant products will be able to comply with the relevant overseas regulations in relation to product liability and quality control of imported products. During the Track Record Period and up to the Latest Practicable Date, we had no material disputes with and had no material complaints received from our EU customers regarding the importation of our products in EU.

UNITED ARAB EMIRATES ("UAE") LAWS AND REGULATIONS

The UAE is a member of the World Trade Organisation (WTO), and maintains a liberal trade regime. Certain specified items such as arms and ammunition, alcoholic beverages, agricultural pesticides, chemicals, animal products, pearls and diamonds, telecommunication equipment and radio transmitters require approval of the relevant regulatory authority before they can be imported. Some items are prohibited; these include radiation polluted substances, printed publications, oil paintings, photographs, pictures, cards, books, magazines, stony sculptures and mannequins which contradict Islamic teachings, decencies, or that deliberately imply immorality or can incite turmoil. Israeli goods and goods from other boycotted countries are also prohibited. There are no exchange controls in the UAE. However, all importers need to have a commercial license in order to operate, including the right to import goods for business purposes, and an importer can import only goods covered under the license.

REGULATORY OVERVIEW

In November 1999, the UAE and its fellow members of the Gulf Cooperation Council (GCC) formed a customs union, which took effect from 1 January 2003. The accord establishes a single tariff of 5% on imported items originating from non-member countries, if those goods do not enjoy preferential treatment under free trade agreements, if any, with such countries. It also provides a list of other essential items that can be imported duty-free. Under the accord, goods imported into the GCC area country can be freely transported or exported subsequently throughout the GCC region without paying additional tariffs. There is no duty on exports. Customs duty is calculated on the CIF value at the rate of 5% for most products. Imports of alcoholic products, however, are subject to a 50% customs duty on their CIF value, while the rate for tobacco products is 100%. CIF value will normally be calculated on the declared value of the shipment on the basis of commercial invoices. However, the UAE Customs is not bound to accept the figures shown, and may set an estimated value on the goods, which shall be final, as far as the duty is concerned. The Consumer Protection Law requires that labels should include information regarding the type and nature of the goods and their ingredients, product name, date of production or packaging, net weight, country of manufacture and country of export (if any), operating instructions, expiry date, specifications, together with an additional conspicuous warning regarding any particular risks associated with the product. Labels should be in Arabic, or both Arabic and English.

The UAE has also, as part of a GCC wide initiative, published its Value Added Tax (VAT) law, to be implemented with effect from 1 January 2018. The VAT laws of each GCC member state should accord with the GCC Framework agreement (agreed by all the member states) which was published in May this year. VAT will be due on the supply of goods and services, including goods and services purchased from abroad. Companies whose annual turnover on taxable supplies is expected to exceed AED375,000 are obliged to register for VAT. The standard rate is 5%. Some goods and services will be exempt, and some will be zero rated. Exports of goods and services to outside the GCC, and supplies by health care and education sectors, amongst others, will be zero rated. Some investment grade precious metals (e.g. gold, silver, of 99% purity) will also be zero rated. If the exporter of the goods to UAE resident importers is not resident in the UAE, the exporter will not be required to register for VAT, since the UAE resident importers would be responsible for paying the VAT. The mechanism for paying VAT due on imports will depend on whether, or not, the importer is registered for VAT in the UAE. If an importer is registered for VAT, then the VAT would be accounted for on the value of the imported item through a reverse charge mechanism. If the importer is a non-registered person, and the goods are imported from outside the GCC then VAT would be paid on the imported item at the time of the import; such VAT will typically be required to be paid before the goods are released to the person.

The aforesaid UAE laws and regulations are applicable to local importers, and since we deliver our products to our UAE customers on the basis of “FOB – Hong Kong”, the aforesaid UAE laws and regulations are not directly applicable on us and only applicable on our UAE customers, being the local importers. Since such local importers have to comply with the relevant overseas laws and regulations, our Group is normally expected to comply with, and the importers will issue such purchase orders to us for watch products that conform with applicable specifications and quality standards such that the relevant products will be able to comply with

REGULATORY OVERVIEW

the relevant overseas regulations in relation to product liability and quality control of imported products. During the Track Record Period and up to the Latest Practicable Date, we had no material disputes with and had no material complaints received from our UAE customers regarding the importation of our products in UAE.

TURKEY LAWS AND REGULATIONS

Import and Customs

With regard to customs related obligations, as a general rule, imported goods are not subject to licenses or registration obligations in Turkey. There are, however, specific rules regulating the import of certain materials. The Harmonised System (which is generally abbreviated as “GTIP” in Turkish customs system) codes provide specific information on the conditions for importing goods into Turkey, which can be identified only after GTIP codes are made available.

Under Turkish laws, customs duties are calculated according to the customs tariff in force at the date of beginning of the customs liability. The Turkish customs tariff is prepared under the GTIP, and each good is identified with a GTIP Code composed of 12 digits. Applicable customs duty rates are published each year in the GTIP lists and differ according to the list the good is categorised on.

In addition to customs duties, goods imported to Turkey may be subject to other taxations such as VAT and the Special Consumption Tax. Watches and watch products are generally not included in the product groups that are subject to Special Consumption Tax, however certain watchbands which consist of pearls or any kind of gemstones are subject to Special Consumption Tax in the amount of 20% in addition to VAT. The standard rate of VAT applicable to watch products in Turkey is 18%.

Currently, Turkey imposes no anti-dumping tax on watches or any watch products or accessories thereof.

Product Safety and Environmental Regulations

Product Safety

Law No. 4703 on Preparation and Application of Technical Legislation of Products (the “**Technical Legislation Law**”) and the Regulation on Market Oversight and Supervision of Products provide that the manufacturers must sufficiently inform consumers on hidden risks of the good, and place necessary warnings and labels on the good to indicate its specifics. Law No. 6502 on the Protection of Consumers (the “**Consumer Protection Law**”) also provides that, if a good carries a risk to be harmful or dangerous to consumer’s health and environment, safety instructions must be placed on the good in a noticeable, legible form and in Turkish. Under the above mentioned legislation, importer of a product will be deemed as the manufacturer of such

REGULATORY OVERVIEW

product, where the actual manufacturer is not located in Turkey. In this respect, obligation to place warnings and labels on the products will be imposed on the importer of the Group's products to Turkey.

In addition, in accordance with the Consumer Protection Law, along with the Warranty Certificates Regulation and the User Manuals Regulation that are adopted based on the Consumer Protection Law, manufacturers/importers must issue a warranty certificate and a manual for the consumer goods they produce or import. In this regard, the obligation to issue a warranty certificate and a manual will be imposed on those who purchase the relevant products from the Group and import such products to Turkey, since the Group, as the manufacturer, is not located in Turkey. Note that, however, while the issuance of a warranty certificate and a manual is a requirement for placing the products into the Turkish market, during import process, documentation relating to warranty is not required by the customs authorities.

In the context of product safety, Turkey has prohibited the use of nickel, cadmium and in production of watches and additionally azo-colorants in the production of watchbands pursuant to the Regulation Regarding the Restriction and Prohibition of Hazardous Substances and Mixtures (the "**Hazardous Substances Regulation**"), adopted based on EC Regulation No. 1907/2006. In this respect, products that are not compliant with the specifications set out under the Hazardous Substances Regulation may not be imported into or sold in the Turkish market.

Environmental Regulations

Concerning the environmental protection, Turkey has adopted the Regulation on the Control of Waste Electrical and Electronic Equipment (the "**WEEE Regulation**") based on EC Directives No. 2002/95/EC and 2002/96/EC. Under the WEEE Regulation, watches fall within the scope of the definition of "electrical and electronic equipment".

For the purposes of the WEEE Regulation those who import electrical and electronic equipment with commercial purposes are deemed "manufacturers". Therefore, given our "FOB – Hong Kong" structure, the manufacturer's liability would lie with the local importer of the relevant products in Turkey. In this respect, manufacturers' and distributors' liabilities include using parts and materials suitable for recycling, preparing a WEEE recycling plan, receiving used EEEs from consumers upon request, etc.

In addition to the WEEE Regulation, since our products include batteries, those who import such products into Turkey will also be subject to certain obligations under the Control of Waste Battery and Accumulators (the "**Battery Regulation**"). Similar to the WEEE Regulation, the Battery Regulation provides that the importer of a product will be regarded as the manufacturer of such product, where the manufacturer is not located in Turkey. With this regard, according to the Battery Regulation, all businesses importing and selling battery must:

- Receive the waste batteries from the consumers, who return them, free of charge and in compliance with the system established by battery manufacturers/importers;

REGULATORY OVERVIEW

- Ensure that the returned waste batteries are delivered to the manufacturer/its authorised institution according to the instructions of the manufacturer; and
- Display warnings and information regarding the collection procedure of waste batteries and collection spots, in a manner to be easily seen by the consumer.

The aforesaid Turkey laws and regulations are applicable to local importers, and since we deliver our products to our Turkey customers on the basis of “FOB – Hong Kong”, the aforesaid Turkey laws and regulations are not directly applicable on us and only applicable on our Turkey customers, being the local importers. Since such local importers have to comply with the relevant overseas laws and regulations, our Group is normally expected to comply with, and the importers will issue such purchase orders to us for watch products that conform with applicable products specifications and quality standards such that the relevant products will be able to comply with the relevant overseas regulations in relation to product liability and quality control of imported products. During the Track Record Period and up to the Latest Practicable Date, we had no material disputes with and had no material complaints received from our Turkey customers regarding the importation of our products in Turkey.

HISTORY, REORGANISATION AND GROUP STRUCTURE

OVERVIEW

The history of our Group dates back to 1986 when Mr. Cheuk founded 3 Wells, funded by his personal financial resources, with three Independent Third Parties, and commenced dealing in watches. Mr. Cheuk was responsible for the overall sales and marketing and business development of 3 Wells.

In 1989, Mrs. Cheuk joined 3 Wells with another Independent Third Party, and they acquired from the aforesaid three Independent Third Parties all their shares in 3 Wells. Mrs. Cheuk was also appointed as a director of 3 Wells in the same year, and was in charge of the overall administration, human resources and finance management of 3 Wells.

In 1992, Mr. Cheuk and Mrs. Cheuk acquired from the aforesaid Independent Third Party all his shares in 3 Wells, and since then, Mr. Cheuk and Mrs. Cheuk became the only two ultimate shareholders of 3 Wells.

In 1996, 3 Wells was accredited with ISO 9001 by DNV GL Business Assurance B.V., the Netherlands. In 1996, 3 Wells was also accredited with Certificate of Registration for Quality System (ISO 9001-1994) by CCIB Quality Certification Centre (中國商檢質量認證中心).

In 1998, our quartz analog watches were accredited with the Hong Kong Q-Mark by the Hong Kong Q-Mark Council under the auspices of the Federation of Hong Kong Industries. The Q-Mark is a sign of quality excellence.

In the same year, Mr. Cheuk was honoured with the Young Industrialist Awards of Hong Kong and was appointed as the chairman of The Federation of Hong Kong Watch Trades & Industries Limited.

We had previously made a listing application on the then Growth Enterprise Market of the Stock Exchange in August 2012 which was nevertheless subsequently withdrawn in December 2012 due to, among others, the effectiveness of such financial information would expire by the end of 2012 and material change on the listing timetable, both of which were perceived by our then directors to have a material impact on our business planning and development.

After 30 years of operation, our Group has become one of the established and active watch manufacturers headquartered in Hong Kong.

HISTORY, REORGANISATION AND GROUP STRUCTURE

BUSINESS MILESTONES

The following table outlines the key milestones in the history of our Group:

1986	Mr. Cheuk founded 3 Wells with three other Independent Third Parties and commenced watch trading business
1989	Mrs. Cheuk joined 3 Wells and was appointed as a director of 3 Wells We started to participate in one of the world's major watch fairs, Baselworld in Switzerland
1992	We entered European market
1993	We entered Brazilian market We set up our production plant in Baoan District, Shenzhen City, Guangdong Province, the PRC
1994	We set up and relocated our production plant to Tianan Industrial District in Shenzhen City, Guangdong Province, the PRC
1996	Mr. Cheuk was appointed as a committee member of Watches & Clocks Advisory Committee of TDC 3 Wells was accredited with ISO 9001 by DNV GL Business Assurance B.V. 3 Wells was accredited with Certificate of Registration for Quality System (ISO 9001-1994) by CCIB Quality Certification Centre (中國商檢質量認證中心)
1997	We entered Asian market We entered United Arab Emirates market
1998	Our quartz analog watches were accredited with The Hong Kong Q-Mark by The Hong Kong Q-Mark Council 3 Wells was accredited with TDC's Certificate of Merit in Export Marketing Mr. Cheuk was appointed as the chairman of The Federation of Hong Kong Watch Trades & Industries Limited Mr. Cheuk was honoured with the Young Industrialist Awards of Hong Kong

HISTORY, REORGANISATION AND GROUP STRUCTURE

- 1999 We started to participate in one of the world's major watch fairs, Hong Kong Watch & Clock Fair
- 2005 We set up and relocated our production plant to Song Gang, Baoan District, Shenzhen City, Guangdong Province, the PRC
- Billion Start (our excluded group member) acquired Units 3, 5 and 6, 15th Floor, Tower One, Ever Gain Plaza, No. 88 Container Port Road, Kwai Chung, New Territories, Hong Kong as our Hong Kong headquarters and principal office and such property was subsequently transferred to Cheer China in 2012
- 2016 3 Wells was awarded the Business Excellence Awards by The Professional Validation Centre of Hong Kong Business Sector Limited
- 2017 We set up and relocated our production plant to Zhengzhong Technology Park, Dayang Community, Baoan District, Shenzhen City, Guangdong Province, the PRC

CORPORATE AND BUSINESS DEVELOPMENT HISTORY

Please refer to the paragraph headed “Our Group Structure” in this section below for the diagram which sets forth the corporate structure of our Group as at 1 January 2016, the commencement date of the Track Record Period.

Our Company

Our Company was incorporated on 12 June 2017 in the Cayman Islands as an exempted company with limited liability, with an authorised share capital of HK\$380,000 divided into 38,000,000 ordinary shares of HK\$0.01 each. Upon completion of the Reorganisation, our Company became the holding company of our Group on 4 August 2017, details of which are set out in the paragraph headed “Reorganisation” in this section.

Our intermediate holding subsidiaries

Creative Profit (Hong Kong)

Creative Profit was incorporated in Hong Kong with limited liability on 22 May 2008 with an authorised share capital of HK\$10,000 divided into 10,000 ordinary shares of HK\$1.00 each. Creative Profit is an investment holding company.

During the Track Record Period and up to the Latest Practicable Date, Creative Profit had 10,000 ordinary shares in issue and was wholly-owned by Vast Peak.

HISTORY, REORGANISATION AND GROUP STRUCTURE

Vast Peak (BVI)

Vast Peak was incorporated in the BVI with limited liability on 21 September 2011 and is authorised to issue a maximum of 50,000 shares of a single class each with a par value of US\$1.00. As at the Latest Practicable Date, Vast Peak had one share in issue and was wholly-owned by Beyond Blossom. Vast Peak is an investment holding company.

As at 1 January 2016, being the commencement date of the Track Record Period, Vast Peak had one share in issue and was wholly-owned by Million Easy.

As part of the Reorganisation and pursuant to the Sale and Purchase Agreement of Vast Peak dated 4 August 2017, Million Easy, the then sole shareholder of Vast Peak, transferred one ordinary share in Vast Peak (representing the entire issued share capital of Vast Peak) to Beyond Blossom, and as consideration thereof, Beyond Blossom allotted and issued one share, credited as fully paid, to our Company. For details, please refer to the paragraph headed “Reorganisation – Stage (3) – Acquisition of Vast Peak, 3 Wells and Cheer China by Beyond Blossom, Precise Time and Big Hope, respectively” in this section. Immediately after the aforesaid transfer of share, Vast Peak became an indirect wholly-owned subsidiary of our Company.

Beyond Blossom (BVI)

Beyond Blossom was incorporated in the BVI with limited liability on 9 May 2017 and is authorised to issue a maximum of 50,000 shares of a single class each with a par value of US\$1.00. As at the Latest Practicable Date, Beyond Blossom had four shares in issue which are held by the Company. Beyond Blossom is an investment holding company.

On 4 July 2017, Beyond Blossom allotted and issued one share to our Company at par. Immediately after the aforesaid allotment and issue of share, Beyond Blossom became a direct wholly-owned subsidiary of our Company.

On 4 August 2017, as part of the Reorganisation, Beyond Blossom acquired the entire issued share capital of Talent Gift from Vast Peak, details of which are set out in the paragraph headed “Reorganisation – Stage (2) – Acquisition of Cheers Wells and Talent Gift by Diamond Fountain and Beyond Blossom, respectively” in this section.

On 4 August 2017, as part of the Reorganisation, Beyond Blossom acquired the entire issued share capital of Vast Peak from Million Easy, details of which are set out in the paragraph headed “Reorganisation – Stage (3) – Acquisition of Vast Peak, 3 Wells and Cheer China by Beyond Blossom, Precise Time and Big Hope, respectively” in this section.

HISTORY, REORGANISATION AND GROUP STRUCTURE

Big Hope (BVI)

Big Hope was incorporated in the BVI with limited liability on 9 May 2017 and is authorised to issue a maximum of 50,000 shares of a single class each with a par value of US\$1.00. As at the Latest Practicable Date, Big Hope had one share in issue which is held by Beyond Blossom. Big Hope is an investment holding company.

On 4 July 2017, Big Hope allotted and issued one share to Beyond Blossom at par. Immediately after the aforesaid allotment and issue of share, Big Hope became an indirect wholly-owned subsidiary of our Company.

On 4 August 2017, as part of the Reorganisation, Big Hope acquired the entire issued share capital of Cheer China from Million Easy, details of which are set out in the paragraph headed “Reorganisation – Stage (3) – Acquisition of Vast Peak, 3 Wells and Cheer China by Beyond Blossom, Precise Time and Big Hope, respectively” in this section.

Diamond Fountain (BVI)

Diamond Fountain was incorporated in the BVI with limited liability on 9 May 2017 and is authorised to issue a maximum of 50,000 shares of a single class each with a par value of US\$1.00. As at the Latest Practicable Date, Diamond Fountain had one share in issue which is held by Beyond Blossom. Diamond Fountain is an investment holding company.

On 4 July 2017, Diamond Fountain allotted and issued one share to Beyond Blossom at par. Immediately after the aforesaid allotment and issue of share, Diamond Fountain became an indirect wholly-owned subsidiary of our Company.

On 4 August 2017, as part of the Reorganisation, Diamond Fountain acquired the entire issued share capital of Cheer Wells from Vast Peak, details of which are set out in the paragraph headed “Reorganisation – Stage (2) – Acquisition of Cheers Wells and Talent Gift by Diamond Fountain and Beyond Blossom, respectively” in this section.

Precise Time (BVI)

Precise Time was incorporated in the BVI with limited liability on 10 May 2017 and is authorised to issue a maximum of 50,000 shares of a single class each with a par value of US\$1.00. As at the Latest Practicable Date, Precise Time had one share in issue which is held by Beyond Blossom. Precise Time is an investment holding company.

On 4 July 2017, Precise Time allotted and issued one share to Beyond Blossom at par. Immediately after the aforesaid allotment and issue of share, Precise Time became an indirect wholly-owned subsidiary of our Company.

On 4 August 2017, as part of the Reorganisation, Precise Time acquired the entire issued share capital of 3 Wells from Million Easy, details of which are set out in the paragraph headed “Reorganisation – Stage (3) – Acquisition of Vast Peak, 3 Wells and Cheer China by Beyond Blossom, Precise Time and Big Hope, respectively” in this section.

HISTORY, REORGANISATION AND GROUP STRUCTURE

Our operating subsidiaries

3 Wells (Hong Kong)

3 Wells was a private company incorporated in Hong Kong with limited liability on 2 September 1986 with an authorised share capital of HK\$100,000 divided into 100,000 ordinary shares of HK\$1.00 each. 3 Wells principally engages in the business of trading and distribution of watches.

As at 1 January 2016, being the commencement date of the Track Record Period, 3 Wells had increased its issued share capital to HK\$1,000,000 and had 1,000,000 ordinary shares in issue, and was wholly-owned by Million Easy.

As part of the Reorganisation and pursuant to the Sale and Purchase Agreement of 3 Wells dated 4 August 2017, Million Easy, the then sole shareholder of 3 Wells, transferred 1,000,000 ordinary shares in 3 Wells (representing the entire issued share capital of 3 Wells) to Precise Time, and as consideration thereof, Beyond Blossom allotted and issued one share, credited as fully paid, to our Company. For details, please refer to the paragraph headed “Reorganisation – Stage (3) – Acquisition of Vast Peak, 3 Wells and Cheer China by Beyond Blossom, Precise Time and Big Hope, respectively” in this section. Immediately after the aforesaid transfer of shares, 3 Wells became an indirect wholly-owned subsidiary of our Company.

Shenzhen 3 Wells (PRC)

Shenzhen 3 Wells was established in the PRC as a limited liability company on 8 August 2005 and has a registered capital of HK\$10,000,000. Shenzhen 3 Wells principally engages in manufacturing of watches.

During the Track Record Period and up to the Latest Practicable Date, the registered capital of Shenzhen 3 Wells was HK\$10,000,000 and Shenzhen 3 Wells was wholly-owned by Creative Profit.

Cheer China (Hong Kong)

Cheer China was a private company incorporated in Hong Kong with limited liability on 3 August 2011 with an authorised share capital of HK\$10,000 divided into 10,000 ordinary shares of HK\$1.00 each. Cheer China is an investment holding company.

As at 1 January 2016, being the commencement date of the Track Record Period, Cheer China had one share in issue and was wholly-owned by Million Easy.

As part of the Reorganisation and pursuant to the Sale and Purchase Agreement of Cheer China dated 4 August 2017, Million Easy, the then sole shareholder of Cheer China, transferred one ordinary share in Cheer China (representing the entire issued share capital of Cheer China) to Big Hope, and as consideration thereof, Beyond Blossom allotted and issued one share,

HISTORY, REORGANISATION AND GROUP STRUCTURE

credited as fully paid, to our Company. For details, please refer to the paragraph headed “Reorganisation – Stage (3) – Acquisition of Vast Peak, 3 Wells and Cheer China by Beyond Blossom, Precise Time and Big Hope, respectively” in this section. Immediately after the aforesaid transfer of share, Cheer China became an indirect wholly-owned subsidiary of our Company.

Cheer Wells (Hong Kong)

Cheer Wells was a private company incorporated in Hong Kong with limited liability on 2 February 2015 with an initial share capital of HK\$10,000 by allotting and issuing 10,000 ordinary shares. Cheer Wells is an investment holding company.

As at 1 January 2016, being the commencement date of the Track Record Period, Cheer Wells had 10,000 shares in issue and was wholly-owned by Vast Peak.

As part of the Reorganisation and pursuant to the Sale and Purchase Agreement of Cheer Wells dated 4 August 2017, Vast Peak, the then sole shareholder of Cheer Wells, transferred 10,000 ordinary shares in Cheer Wells (representing the entire issued share capital of Cheer Wells) to Diamond Fountain at the consideration of HK\$1.00 per ordinary share totalling HK\$10,000. For details, please refer to the paragraph headed “Reorganisation – Stage (2) – Acquisition of Cheers Wells and Talent Gift by Diamond Fountain and Beyond Blossom, respectively” in this section. Immediately after the aforesaid transfer of shares, Cheer Wells became an indirect wholly-owned subsidiary of our Company.

Talent Gift (BVI)

Talent Gift was incorporated in the BVI with limited liability on 3 January 2017 and is authorised to issue a maximum of 50,000 shares of a single class each with a par value of US\$1.00. As at the Latest Practicable Date, Talent Gift had one share in issue which is held by Beyond Blossom. Talent Gift is an investment holding company.

On 5 May 2017, Talent Gift allotted and issued one share to Vast Peak at par.

As part of the Reorganisation and pursuant to the Sale and Purchase Agreement of Talent Gift dated 4 August 2017, Vast Peak, the then sole shareholder of Talent Gift, transferred one share in Talent Gift (representing the entire issued share capital of Talent Gift) to Beyond Blossom at par. For details, please refer to the paragraph headed “Reorganisation – Stage (2) – Acquisition of Cheers Wells and Talent Gift by Diamond Fountain and Beyond Blossom, respectively” in this section. Immediately after the aforesaid transfer of shares, Talent Gift became an indirect wholly-owned subsidiary of our Company.

Our excluded businesses

Since we decided to streamline our core business, we excluded Million Easy, Yau Tong and Billion Start out of our Group pursuant to the Reorganisation because Million Easy and Yau Tong are investment holding companies, and Billion Start is a property holding company. Our

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Directors confirm that to the best of their knowledge, Million Easy, Yau Tong and Billion Start did not involve in any material non-compliances, litigations or claims, or exposed to any material actual or contingent liabilities during the Track Record Period and up to the completion of the Reorganisation.

In the opinion of our Directors, based on the unaudited management accounts of Million Easy, Yau Tong and Billion Start, had these three companies not been excluded and its financial information been included in the financial information of our Group, our Group would have recorded additional unaudited net asset in aggregate of approximately HK\$5.2 million and HK\$4.2 million as at 31 December 2016 and 2017, respectively; and additional unaudited share of loss in aggregate of approximately HK\$0.6 million and HK\$1.0 million for each of the two years ended 31 December 2017, respectively.

Billion Start (Hong Kong)

Billion Start was incorporated in Hong Kong with limited liability on 16 December 1998 with an authorised share capital of HK\$10,000 divided into 10,000 ordinary shares of HK\$1.00 each. Billion Start is a property holding company which holds the property situated at Flat B, 20th Floor, Tower VII, The Waterfront, No. 1 Austin Road West, Kowloon, Hong Kong.

During the Track Record Period and up to the Latest Practicable Date, Billion Start had 10,000 ordinary shares in issue and was wholly-owned by Yau Tong.

For information about exclusion of Billion Start out of our Group and the reasons of such exclusion, please refer to the paragraph headed “Our excluded businesses – Million Easy (BVI)” below in this sub-section.

Million Easy (BVI)

Million Easy was incorporated in the BVI with limited liability on 8 June 2007 and is authorised to issue a maximum of 50,000 shares of a single class each with a par value of US\$1.00. As at the Latest Practicable Date, Million Easy had two shares in issue. Million Easy is an investment holding company and one of our Controlling Shareholders.

During the Track Record Period and up to the Latest Practicable Date, Million Easy had two shares in issue and was owned as to one share by Mr. Cheuk and as to one share by Mrs. Cheuk.

After the Reorganisation, Million Easy has become one of our Controlling Shareholders and therefore Million Easy, and Yau Tong and Billion Start (both wholly-owned subsidiaries of Million Easy) have been excluded out of our Group.

Since the property held by Billion Start (which was wholly-owned by Million Easy through Yau Tong) situated at Flat B, 20th Floor, Tower VII, The Waterfront, No. 1 Austin Road West, Kowloon, Hong Kong was not used by our Group, we decided to streamline our core business and therefore excluded Million Easy, Yau Tong and Billion Start out of our Group pursuant to the Reorganisation.

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Yau Tong (BVI)

Yau Tong was incorporated in the BVI with limited liability on 9 August 2007 and is authorised to issue a maximum of 50,000 shares of a single class each with a par value of US\$1.00. Yau Tong is an investment holding company.

During the Track Record Period and up to the Latest Practicable Date, Yau Tong had two shares in issue and were wholly-owned by Million Easy.

For information about exclusion of Yau Tong out of our Group and the reasons of such exclusion, please refer to the paragraph headed “Our excluded businesses – Million Easy (BVI)” above in this sub-section.

REORGANISATION

Our Company completed the Reorganisation on 4 August 2017 in preparation for the Listing, pursuant to which our Company became the holding company of our Group. As confirmed by our Directors, each of the share transfers, made in the Reorganisation was properly and legally completed and settled. The Reorganisation involved the following steps:

Step (1) – Incorporation of our Company, Beyond Blossom, Precise Time, Big Hope and Diamond Fountain

For details of the incorporation of our Company, Beyond Blossom, Precise Time, Big Hope and Diamond Fountain, please refer to the paragraph headed “Corporate and Business Development History” in this section.

Stage (2) – Acquisition of Cheers Wells and Talent Gift by Diamond Fountain and Beyond Blossom, respectively

As part of the Reorganisation and pursuant to the Sale and Purchase Agreement of Cheer Wells dated 4 August 2017, Diamond Fountain acquired 10,000 ordinary shares of Cheer Wells (representing the entire issued share capital of Cheer Wells) from Vast Peak at the consideration of HK\$1.00 per ordinary share totaling HK\$10,000.

Immediately after the aforesaid transfer of shares, Cheer Wells became an indirect wholly-owned subsidiary of our Company.

As part of the Reorganisation and pursuant to the Sale and Purchase Agreement of Talent Gift dated 4 August 2017, Beyond Blossom acquired one ordinary share of Talent Gift (representing the entire issued share capital of Talent Gift) from Vast Peak at par of US\$1.00.

Immediately after the aforesaid transfer of share, Talent Gift became an indirect wholly-owned subsidiary of our Company.

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Stage (3) – Acquisition of Vast Peak, 3 Wells and Cheer China by Beyond Blossom, Precise Time and Big Hope, respectively

As part of the Reorganisation and pursuant to the Sale and Purchase Agreement of Vast Peak dated 4 August 2017, Beyond Blossom acquired one ordinary share of Vast Peak (representing the entire issued share capital of Vast Peak) from Million Easy, and in consideration thereof, Beyond Blossom allotted and issued one share, credited as fully paid, to our Company as directed by Million Easy.

Immediately after the aforesaid transfer of share, Vast Peak became an indirect wholly-owned subsidiary of our Company.

As part of the Reorganisation and pursuant to the Sale and Purchase Agreement of 3 Wells dated 4 August 2017, Precise Time acquired 1,000,000 ordinary shares of 3 Wells (representing the entire issued share capital of 3 Wells) from Million Easy, and in consideration thereof, Beyond Blossom allotted and issued one share, credited as fully paid, to our Company as directed by Million Easy.

Immediately after the aforesaid transfer of shares, 3 Wells became an indirect wholly-owned subsidiary of our Company.

As part of the Reorganisation and pursuant to the Sale and Purchase Agreement of Cheer China dated 4 August 2017, Big Hope acquired one ordinary share of Cheer China (representing the entire issued share capital of Cheer China) from Million Easy, and in consideration thereof, Beyond Blossom allotted and issued one share, credited as fully paid, to our Company as directed by Million Easy.

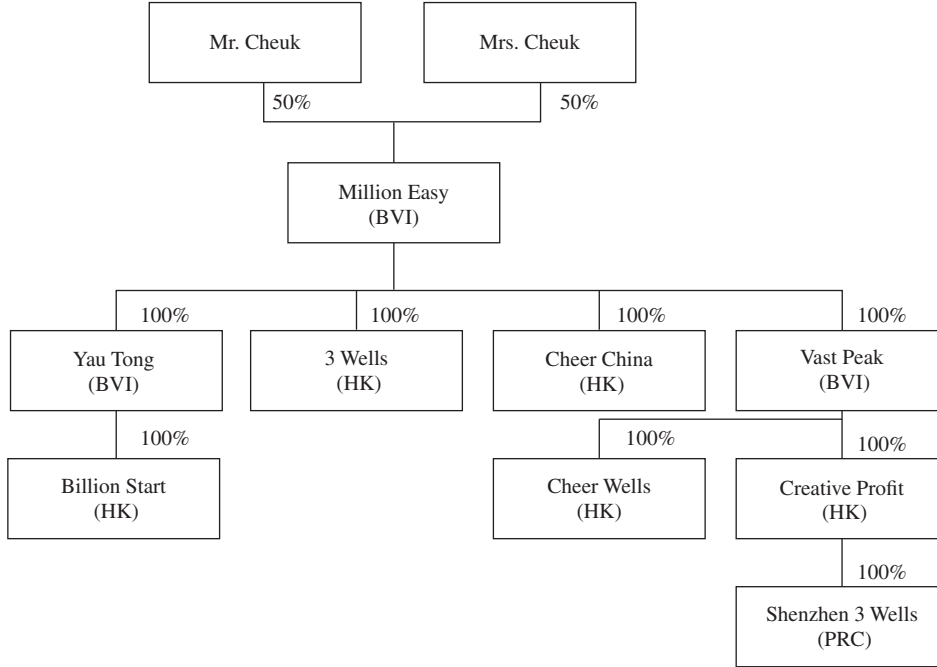
Immediately after the aforesaid transfer of share, Cheer China became an indirect wholly-owned subsidiary of our Company.

Conditional upon the crediting of our Company's share premium account as a result of the allotment and issue of the new Shares pursuant to the Share Offer, our Directors are authorised to capitalise an amount of HK\$7,499,999.99 standing to the credit of the share premium account of our Company by applying such sum towards the paying up in full at par a total of 749,999,999 Shares for allotment and issue to Million Easy.

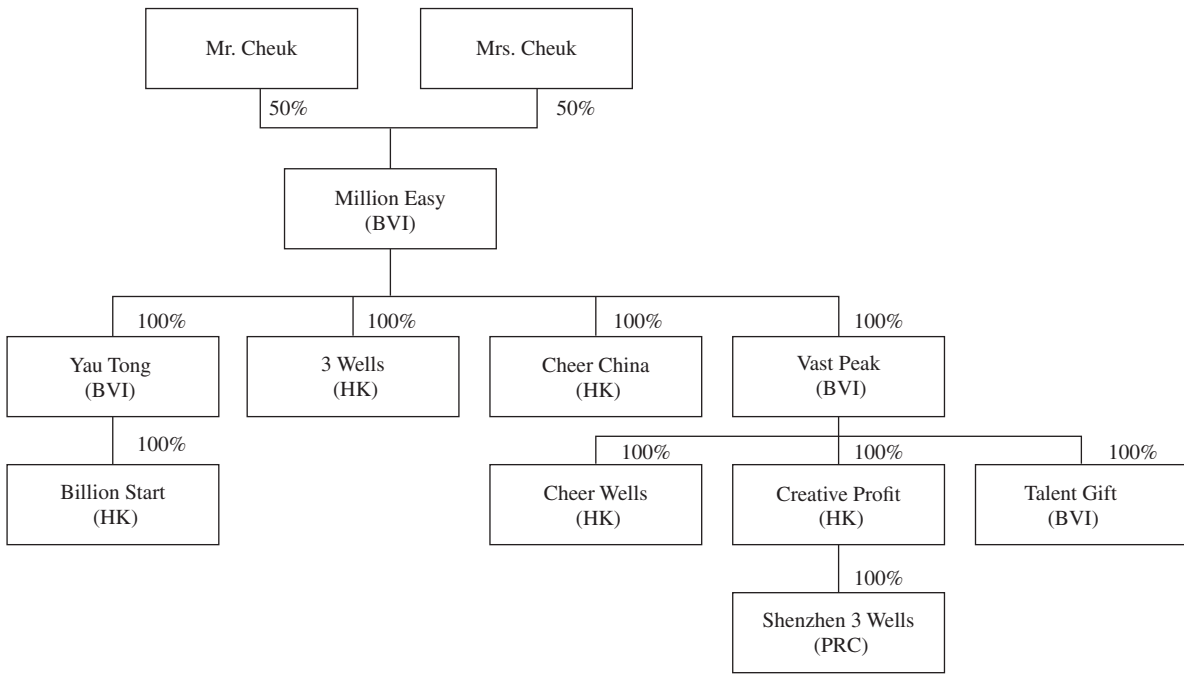
HISTORY, REORGANISATION AND GROUP STRUCTURE

OUR GROUP STRUCTURE

The following diagram sets forth the corporate structure of our Group as at 1 January 2016, being the commencement date of the Track Record Period:

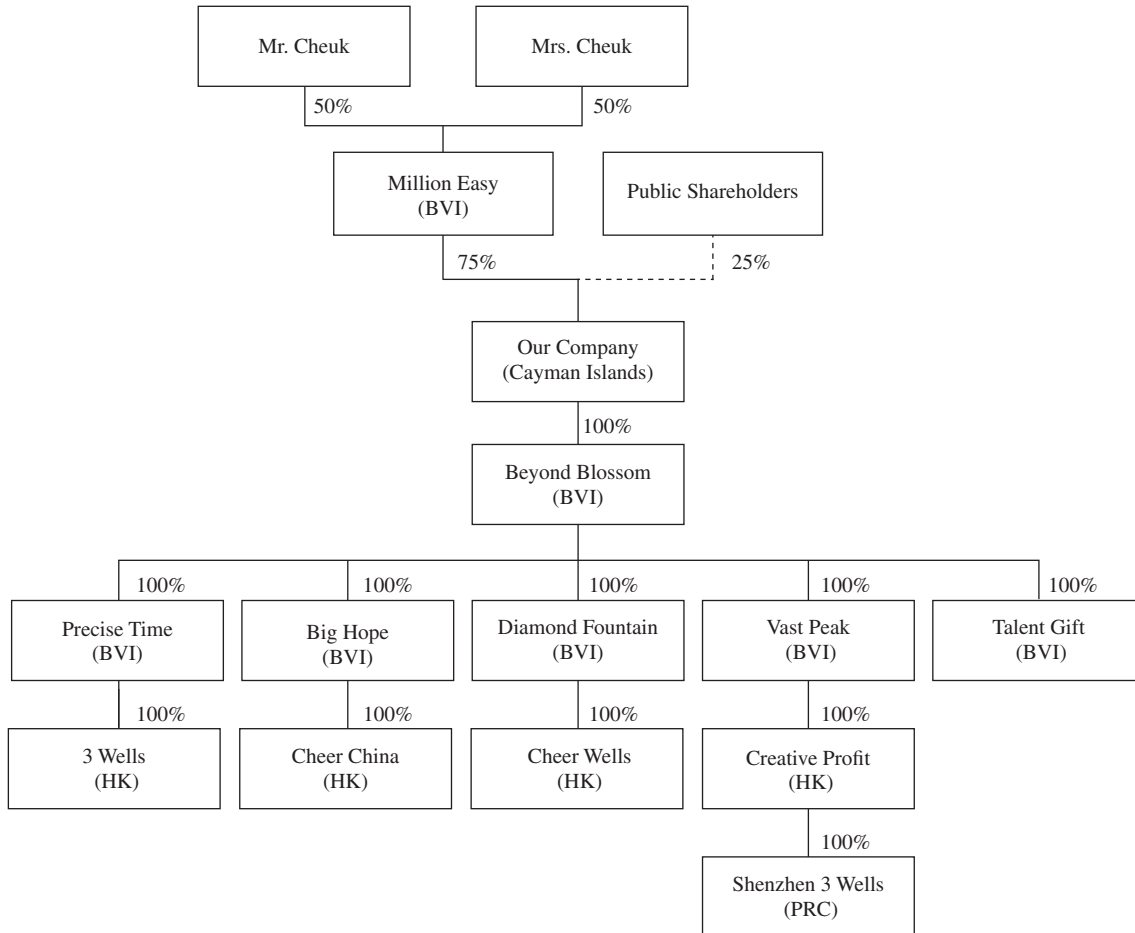


The following diagram sets forth the corporate structure of our Group immediately before the implementation of the Reorganisation:



HISTORY, REORGANISATION AND GROUP STRUCTURE

The following diagram sets forth the corporate structure of our Group immediately after the completion of the Capitalisation Issue and the Share Offer (without taking into account any Shares which may be allotted and issued pursuant to any options which may be granted under the Share Option Scheme):



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OVERVIEW

Established in 1986, we are a watch manufacturer with our head office in Hong Kong and production facilities in the PRC. We principally engaged in design and development, manufacturing and distribution of watch products on an ODM basis. Since August 2017, we have also commenced distributing watches under our own brand and the sales of which accounted for approximately 1.0% of our total revenue for the year ended 31 December 2017.

Most of our revenue during the Track Record Period was generated from the sales of finished watches. We offer a wide range of watch products including female and male, metal and non-metal banded, mechanical and quartz movement watches to our customers. The finished watches would be branded by our ODM customers for their further sales while our branded watches would be branded under our registered brand “Grandber” and distributed to our retail customers in Hong Kong. Some of our revenue was also generated from the sales of SKD Kits during the Track Record Period. Our ODM customers may also order a small quantity of watch parts from us as spare parts for their provision of after-sales services to their customers.

Our ODM customers are watch brand owners which distribute their watch products either directly (through their retail sales channels) or indirectly (through other watch distributors) to the end consumers. The customers of our branded products are watch distributors. Our customers are located around the globe and in particular in Hong Kong, Brazil, UAE, Turkey and EU, of which each accounted for over 5.0% of our total revenue in any of the years during the Track Record Period and in aggregate accounted for approximately 81.1% and 81.7% of our total revenue during the Track Record Period respectively. Please refer to the paragraph headed “Sales and marketing – Customer profile” in this section for further details of the location of our customers.

Taking advantage of our in-house design team which comprises experienced designers and product engineers for both artistic and engineering designs, we are able to launch new watch designs from time to time for selection by our ODM customers. Once the design, specifications and order quantity are confirmed by our ODM customers, we will then source watch parts and components from relevant suppliers and either assemble the components in our in-house production facility located in Shenzhen, Guangdong Province, the PRC or outsource the watch assembly process to our subcontractors located in the PRC. Whether the assembly process is carried out in our own plant or by our subcontractors, we place special emphasis on quality control procedures on our own operations as well as on the products manufactured by our subcontractors to ensure our ability to provide quality products meeting the demands and requirements of our ODM customers. The business model of our branded product business is similar to our ODM business in all material aspects except that we do not have to seek approval from the relevant customers on the design of our branded watches and we outsource the assembly process of our branded watches to a subcontractor in Switzerland and we distribute our branded watches under our own trademarks.

OUR COMPETITIVE STRENGTHS

We believe that the following competitive strengths have been the key factors for our success and will enable us to maintain our market position and capture the anticipated growth in the global watch market in the future.

Continued introduction of new product design to our customers

Our Directors believe that our product design and development capabilities have contributed to our past success and will continue to drive the growth of our business. As part of our ODM business operations, we provide product design and development services to our ODM customers such as design ideas and product enhancement. We advise our ODM customers on design issues, technical matters and production feasibility of the proposed products. We constantly provide our own designs to our ODM customers and explore new design ideas together with them.

Being led by Mr. Cheuk, we have a team of 10 experienced designers comprising design artists and technical specialists, with an average of 7 years' relevant industry experience as at the Latest Practicable Date. As the global watch market is driven by continued innovations in technology and design of watches, our Directors believe that we are able to maintain our competitiveness in the market if our product design and development are able to keep abreast of the latest trends. Therefore, we have participated as an exhibitor in Baselworld in Basel, Switzerland annually since 1989 and in Watch and Clock Fair in Hong Kong annually since 1999 to keep pace with the development of watch trends internationally and consumer preferences with the aim to reflect such trends and preferences in our watch designs. Through our broad clientele, we are also able to obtain the latest market information and market trends from the feedback of our ODM customers and in turn, we are able to develop different designs and product lines after considering the feedback.

Our competitiveness on watch designs had been demonstrated by our launch of around 300 new watch designs for each of the two years ended 31 December 2017 for selection by our ODM customers. Our Directors consider such broad spectrum of designs and products are able to fit our global clientele with different preferences and maintain our competitiveness in the global watch market.

Market diversification

Our customers are located in various countries around the world such as Hong Kong, Brazil, UAE, Turkey, EU, Saudi Arabia, Australia etc. during the Track Record Period. Our Directors believe that our broad customer base has enabled us to achieve market diversification and reduce any potential negative country or continent specific political and economic impacts to our Group.

Experienced and high calibre management team

Our management team has extensive industry knowledge and experience in the watch industry. In particular, Mr. Cheuk, our founder and the chairman of our Board, has over 30 years of experience in the watch industry. His experience and extensive knowledge in the watch

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industry enable us to understand market dynamism and industry practice particularly in respect of product design and development, sales and marketing. Mr. Cheuk is mainly responsible for formulating our Group's overall strategic planning, overseeing sales and marketing and product development, and overall management of our Group's business. Mrs. Cheuk, our executive Director, also has extensive experience in administration and human resources. Ms. Heide Cheuk, our executive Director, has 5 years of experience in the watch industry and is knowledgeable to the e-commerce market and latest business and fashion trends.

We believe that the experience of our executive Directors have been and will continue to be our valuable asset and strive us towards greater success. For details of the qualification and experience of our Directors and senior management, please refer to the section headed "Directors, senior management and staff" in this prospectus.

Established business relationships with major customers and suppliers

We have established business relationships with both our major customers and suppliers. Among our five largest customers during the Track Record Period, we have been in business relationships with them for a period ranging from 3 to 10 years. On the other hand, among our largest five suppliers during the Track Record Period, we have been procuring watch parts and components from them ranging from 1 to 17 years. Leveraging on our established business relationships with our major customers and suppliers, our Directors believe that we are well-positioned to obtain stable purchase orders from our customers and procure quality parts and components from our suppliers.

Stringent quality control system

In order to maintain our competitive edge in the global watch market, we place strong emphasis on the quality control of our products. This is evidenced by, for instance, the ISO 9001 certification obtained by 3 Wells in 1996 and our satisfaction of the relevant annual review since then. We undertake quality control measures at different stages of the manufacturing process, from watch parts and components inspection to assembly process control (including our in-house production and subcontracting) and further to final product inspection, to ensure the quality of our products meets the requirements and expectations of our customers. Further details of our quality control system are set out under the paragraphs headed "Quality control" of this section. Our Directors consider that due to our stringent quality control measures, we have developed a reputation of quality and reliable watch supplier among our customers.

Tailor-made MIS

We have a tailor-made MIS, a software system which allows us to track and trace every order through different stages of processing the order, from the beginning (i.e. taking sales orders) to the end (i.e. until the products have been delivered and payments received) by using the barcode system. The thoroughness of the system allows our management to instantly track and review the status of each watch component, model and final product.

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Our MIS aims to sharpen our competitive edge. In particular, within our MIS, the enterprise resources planning system allows us to collect and monitor real time procurement, production and sales information to facilitate the formulation of our production plan, procurement decision making, inventory analysis, and sales and logistics analysis. Moreover, our Directors are of the view that our MIS is able to assist us on customer relationships management, communication between all internal departments and minimise our manpower and related administrative cost.

OUR BUSINESS STRATEGIES AND EXPANSION PLANS

Our principal business objective is to leverage our competitive strengths and further enhance our market presence in the watch industry and to create long-term value for our Shareholders through the implementation of the following strategies.

Acquisition of production facilities

Our existing production plant is located on the 5th floor, Building No. 9, Zhengzhong Technology Park, Dayang Community, Baoan District, Shenzhen City, Guangdong Province, the PRC with GFA of approximately 2,400 sq.m. (the “**Existing Production Plant**”). The Existing Production Plant is located in Zhengzhong Technology Park, an industrial park with a total area of approximately 64,078 sqm owned by a PRC incorporated company which principally engages in property leasing business and is an Independent Third Party. Pursuant to the relevant tenancy agreement in April 2017 (the “**Existing Production Plant Tenancy Agreement**”) the term of the lease is from 1 April 2017 to 31 August 2020. Taking into account of the then financial position of our Group as reflected by, in particular, the net current liabilities position and the relatively high gearing ratio as at 31 December 2016, we decided not to acquire but to lease a production plant at that time to avoid placing further burden on our working capital.

After Listing, we target to acquire a factory within the Shenzhen City with similar size to the Existing Production Plant. We expect the production capacity of the new factory will remain the same as the Existing Production Plant. Based on the current quotations in the market, we expect to spend a total of approximately HK\$22.8 million or 63.9% of the net proceeds of the Share Offer for the acquisition of the new production plant and for the relevant relocation cost, which includes the property acquisition cost of approximately HK\$18.9 million, renovation cost of approximately HK\$3.2 million and relocation cost and other miscellaneous expenses of approximately HK\$0.7 million including but not limited to title deed tax and stamp duty. According to the Existing Production Plant Tenancy Agreement, as long as a 3-month written notice is served on the lessor, we can early terminate the tenancy agreement but the deposit of approximately HK\$50,000 will be forfeited. If we failed to serve such 3-month written notice on the lessor, the total deposit of approximately HK\$100,000 will be forfeited for the early termination. We plan to acquire a factory in the second half year of 2019 and the relocation is expected to be completed within a week and shall not lead to material interruption of our production and hence our in-house theoretical maximum production capacities will remain the same based on our recent experience of relocation, details of which are set out in the

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paragraphs headed “Production – Production facilities and capacities” in this section. We are of the view that as compared to operating on a leased production base, operating on a self-owned factory will provide the following benefits to us:

(i) Minimise possible disruption to our business operation

According to the Existing Production Plant Tenancy Agreement, the lessor has the right to terminate the same before expiration as long as a 3-month written notice is served to us. In addition, after the execution of the Existing Production Plant Tenancy Agreement, we were informed by the lessor in the second half of 2017 (and further in writing in March 2018) that due to its own intention to upgrade the Zhengzhong Technology Park to a high-tech industrial zone in 2020 and by that time the lessor shall reconsider all the lessee, including our Group, and make certain adjustment to the rental rates. Indeed, in April 2018, we were informed by the lessor that the Existing Production Plant Tenancy Agreement would not be renewed upon expiration. If we are not able to lease a suitable factory with similar scale to our new production base or we have to lease at a much higher rental cost or if such relocation requires a longer time than expected by that time, our business operation may be materially disrupted and may lead to possible delay of our production schedule. Our Directors are of the view that we could not take the risk for not being able to deliver the products on time to our customers considering that any delay of shipment could lead to possible claims for damages from our customers and negatively affect the relationships with our customers. By having a factory of our own, the aforesaid uncertainties to our operation can be minimised.

(ii) Avoid possible adverse impact from rising rental cost

According to the Existing Production Plant Tenancy Agreement, the agreed monthly rental rate of the Existing Production Plant is RMB17.3 per sq.m. for the period from 1 April 2017 to 30 June 2018 and shall increase to RMB25.0 per sq.m. for the period from 1 July 2018 to 31 August 2020, representing an increase of approximately 44.5%. Moreover, according to the Industry Report, the price index of factory rental cost in Shenzhen City had increased from 100.0 in 2012 to 142.0 in 2016 or at a CAGR of approximately 9.2% and is expected to continue to increase from 2017 to 2021 due to the rapid industrial development in Shenzhen City. In light of the historical increase in our rental cost and the possible further increase in factory rents in Shenzhen City in the future, our Directors believe that the acquisition of a new factory shall reduce our exposure to rising operating costs and allow us for better cost control and hence we will be able to offer a more competitive price of our products to our customers and increase our competitiveness in the long run.

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For the purpose of illustration of the potential financial benefit that might be brought to our Group by operating on a self-owned factory instead of on a leased premise, we set out below the comparison between the estimated annual rental expenses for a leased premise and the estimated annual depreciation expenses for an acquired premise:

Assumptions:

Monthly rental under the Existing Production Plant Tenancy Agreement (1 July 2018 to 31 August 2020) RMB59,499

Expected annual growth rate of rental since 2020 (referenced to the historical CAGR of the price index of factory rental cost in Shenzhen City according to the Industry Report) 9.2%

HKD/RMB 1.18

Acquisition cost of newly acquired production plant (*HK\$'000*) HK\$18,880

Rate of depreciation for newly acquired production plant 5.0%

Year	Estimated monthly rental expenses <i>RMB'000</i>	Estimated annual rental expenses <i>HK\$'000</i>	Estimated annual depreciation <i>HK\$'000</i>
2020	59	708	944
2021	65	920	944
2022	71	1,005	944
2023	77	1,097	944
2024	85	1,198	944
2025	92	1,308	944
2026	101	1,429	944
2027	110	1,560	944
2028	120	1,704	944
2029	131	1,860	944
2030	143	2,031	944
2031	157	2,218	944
2032	171	2,422	944
2033	187	2,645	944
2034	204	2,889	944
2035	223	3,154	944
2036	243	3,445	944
2037	266	3,761	944
2038	290	4,108	944
2039	317	4,485	944
Total		<u>HK\$43,953</u>	<u>HK\$18,880</u>

(iii) Expanding our fixed asset base for future development

Owning a property can also expand our fixed asset base which would benefit us financially in the long run as we can negotiate for better financing terms with the banks by offering the property to the banks as collateral.

In light of the above, in particular (i) the potential risk of disruption of our operation if we opt to lease a factory instead of acquire it, based on our previous experience in leasing a production plant including, the existence of the early termination right by the lessor and the unexpected change of circumstances and intention of the lessor itself, which are out of our control, (ii) potential rental increase and (iii) the comparison of the estimated annual rental expenses for a leased premise and the estimated annual depreciation expenses for an acquired premise in the long run, our Directors consider that it is in the best interest of our Company and Shareholders as a whole to acquire a new factory instead of lease a factory. To mitigate the risk of possible repeated relocation caused by implementation of any potential government policies or other unexpected events, before our acquisition of the new factory, we shall conduct online search and check if there is any published announcement by the local government on any possible change of planning and usage of the land which the new factory locates. We shall also seek advice from legal advisers in relation to PRC laws who we may retain from time to time after Listing to confirm our findings and ensure the landlord of the new factory possesses valid property title documents.

In determining whether to finance the acquisition of the new factory by debt financing or equity financing, our Directors are of the view that the use of debt to acquire the new factory is not feasible as we have approached one of the financial institutions in the PRC and we were advised that the maximum loan to value ratio for the acquisition of a production plant is approximately 50%, meaning that the corresponding down payment shall amount to approximately HK\$9.5 million (i.e. 50% of the acquisition cost of approximately HK\$18.9 million). Considering our latest financial positions as at 30 April 2018, in particular, the relatively low level of cash on hand (excluding pledged bank deposits) of only approximately HK\$7.6 million, the net current assets position of only approximately HK\$1.3 million, the relatively high level of short term (less than one year) borrowings of approximately HK\$37.7 million and the fact that majority of our unutilised banking facilities was trade nature and therefore could not be used for other purposes, in order to ensure sufficient working capital for our operation in future, our Directors are of the view that it is in the best interest of our Company and Shareholders as a whole to finance the acquisition of the new factory by utilising the net proceeds of the Share Offer instead of utilising external debt financing or our internal resources.

Expansion of our e-commerce customer base

We have been expanding our e-commerce customer base during the Track Record Period. Our e-commerce customers are ODM customers which principally rely on the online platform to market and distribute their own branded watch products to the end consumers. For the two years ended 31 December 2017, we are in business relationships with 3 and 11 e-commerce customers, respectively which are companies located in Hong Kong, Brazil, Sweden, U.S., Denmark,

Singapore and Australia. The revenue generated from our e-commerce customers amounted to approximately HK\$9.0 million and HK\$12.1 million respectively during the same periods.

In addition, according to the Industry Report, e-commerce has enhanced the connectivity between manufacturers and brand owners, allowing brand owners to find a suitable factory in any location for the production of their products and facilitating international trade. It is expected that e-commerce will continue to impact the modern business world in easing and facilitating cooperation between brand owners, manufacturers and distributors as well as retailers and shall provide a new source of revenue for watch manufacturers who are able to secure the orders from such e-commerce customers from time to time.

In light of our historical expansion in the e-commerce customer base and corresponding revenue and the strong prospect of e-commerce in the watch industry as identified in the Industry Report, we intend to allocate approximately HK\$2.7 million or 7.7% of the net proceeds of the Share Offer for the recruitment of additional staff including 3 marketing staff, 2 graphic designers, 2 product engineers and 2 research and development staff and the purchase of new computer hardware and software for them from 1 January 2019 and up to 30 June 2020.

As at the Latest Practicable Date, we had a total of 11 marketing staff, 10 graphic designers, 5 product engineers and 10 research and development staff. Among which, we had only 1 marketing staff engaged full-time for the e-commerce customer business and the aforesaid graphic designers, product engineers and research and development staff served both e-commerce customers and traditional ODM customers. Our Directors are of the view that, unlike our traditional ODM customers who generally purchase our existing designs, e-commerce customers generally have higher demands in terms of product designs and specifications as each of the product is customised according to their concepts provided to us. Therefore, we intend to recruit additional staff and provide relevant training to them in order to allow them to specialise in dealing with more demanding and complicated projects and to reduce the workload of our existing staff.

In terms of the expected financial and operational impacts on the Group, our Directors are of the view that the success of the further expansion of our e-commerce customer base are able to further expand the source of our revenue in the future. In addition, our administrative expense will be increased due to the recruitment of additional staff for the e-commerce business.

Strengthening of our design capabilities

According to the Industry Report, in light of the rapidly changing consumers tastes and increasing requirements of special designs and functions on the watch products from customers, technologies applied in watch design and manufacturing are gradually upgraded from time to time. For example, an increasing number of watch makers are using 3D printing technologies to make prototypes. By utilising 3D printing technology, watch prototypes are designed on computer that is connected with 3D printers which make three dimensional solid objects from a virtual design. The process cuts down the time and effort in crafting desired watch prototypes as compared with the traditional prototyping methods. Such enhanced technologies are therefore

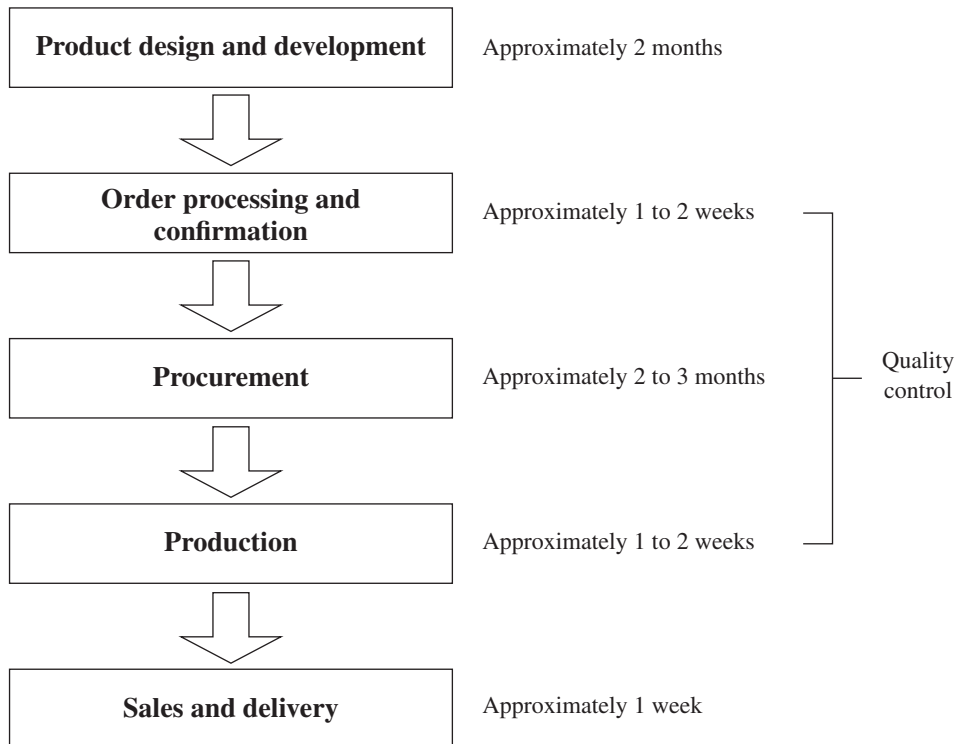
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able to shorten the product development cycle of the industry players and decision making time of their customers and enhance the turnover of the industry players.

We consider our design capabilities as one of our competitive strengths and driving forces to our business. We believe that the expansion and enhancement of our design and development capabilities from time to time will further differentiate ourselves from our competitors and maintain our business growth. As at the Latest Practicable Date, we had one traditional plastic 3D printer on hand. We plan to allocate approximately HK\$2.2 million or 6.2% of the net proceeds of the Share Offer to purchase one metal 3D printer in 2019. Comparing with traditional plastic 3D printer, metal 3D printer can produce relatively higher fidelity watch prototypes which can further shorten the decision making time of our customers.

OUR BUSINESS MODEL

We primarily design and develop, manufacture and sell watch products on an ODM basis. Under our ODM business model, we provide our ODM customers with suggested designs developed by our in-house design team from time to time in accordance with their conceptual ideas and needs. Once the designs, specifications and order quantity are confirmed by our ODM customers, we procure necessary watch components and parts from our suppliers and assemble watches either by ourselves in our production plant in the PRC or by our subcontractors in the PRC. In general, our products will be delivered by us to our ODM customers' freight forwarding offices in Hong Kong and the title and risk of the products would be passed to them at the same time. Our ODM customers are responsible for handling the export and import procedures under the HK Laws and the destination countries respectively. Our ODM business model can generally be summarised as follows:



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Leveraging our extensive experience in the ODM business, we began distributing the watches of our own brand, namely Grandber, in August 2017. Other than additional effort put in advertising and promotion (for details, please refer to paragraph headed “Sales and marketing – Marketing and promotion” in this section), the business model of our branded product is similar to our ODM business in all material aspects except that we do not seek approval from the relevant customer on the designs of our branded products and we outsource the assembly process of our branded product to a subcontractors in Switzerland and we produce our branded product under our own trademarks. Despite ramping up our branded product business, our Directors consider that our ODM business shall remain as our business focus in the foreseeable future.

OUR PRODUCTS

During the Track Record Period, most of our revenue was generated from the sales of finished watches. We also deliver our products to our ODM customers in the form of SKD Kits and our ODM customers shall assemble the watch parts by themselves. Our ODM customers may also order a small quantity of watch parts from us as spare parts for their provision of after-sales services to their customers. Set out below is the breakdown of our Group’s revenue by form of watch products during the Track Record Period:

	Year ended 31 December			
	2016		2017	
	<i>HK\$’000</i>	%	<i>HK\$’000</i>	%
Finished watches ^{Note}	120,177	79.1	130,799	74.8
SKD Kits	28,895	19.0	41,515	23.7
Watch parts	2,820	1.9	2,504	1.4
	<u>151,892</u>	<u>100.0</u>	<u>174,817</u>	<u>100.0</u>

Note: For the year ended 31 December 2017, the revenue of our finished watches segment included the revenue generated from the sales of our branded products of approximately HK\$1.8 million.

Set out below is the breakdown of our sales volume by form of watch products during the Track Record Period:

	Year ended 31 December	
	2016	2017
	<i>pieces</i>	<i>pieces</i>
Finished watches	661,009	711,788
SKD Kits	192,472	272,781
Watch parts	196,707	190,967

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Accordingly, the following table sets forth the average unit price of our product by form (being the revenue of each form of product divided by the respective sales volume in the same period) during the Track Record Period:

	Year ended 31 December	
	2016	2017
	HK\$	HK\$
Finished watches	181.8	183.8
SKD Kits	150.1	152.2
Watch parts	14.3	13.1

We offer a wide range of watch products to our customers including female and male, metal and non-metal banded, mechanical and quartz movement watches. The products of our own branded watches are featured with diamond decorated watch cases and the suggested retail price of our branded watches ranges from approximately HK\$17,000 to approximately HK\$20,000 during the Track Record Period. Our branded watches are labelled as “Swiss Made” as we outsource the assembly process of our branded watches to a subcontractor in Switzerland and we have obtained certificate of origin for our branded products issued by the chamber of commerce in Switzerland and hence our Directors are of the view that our Group has complied with the relevant requirement for labelling our branded products as such.

PRODUCT DESIGN AND DEVELOPMENT

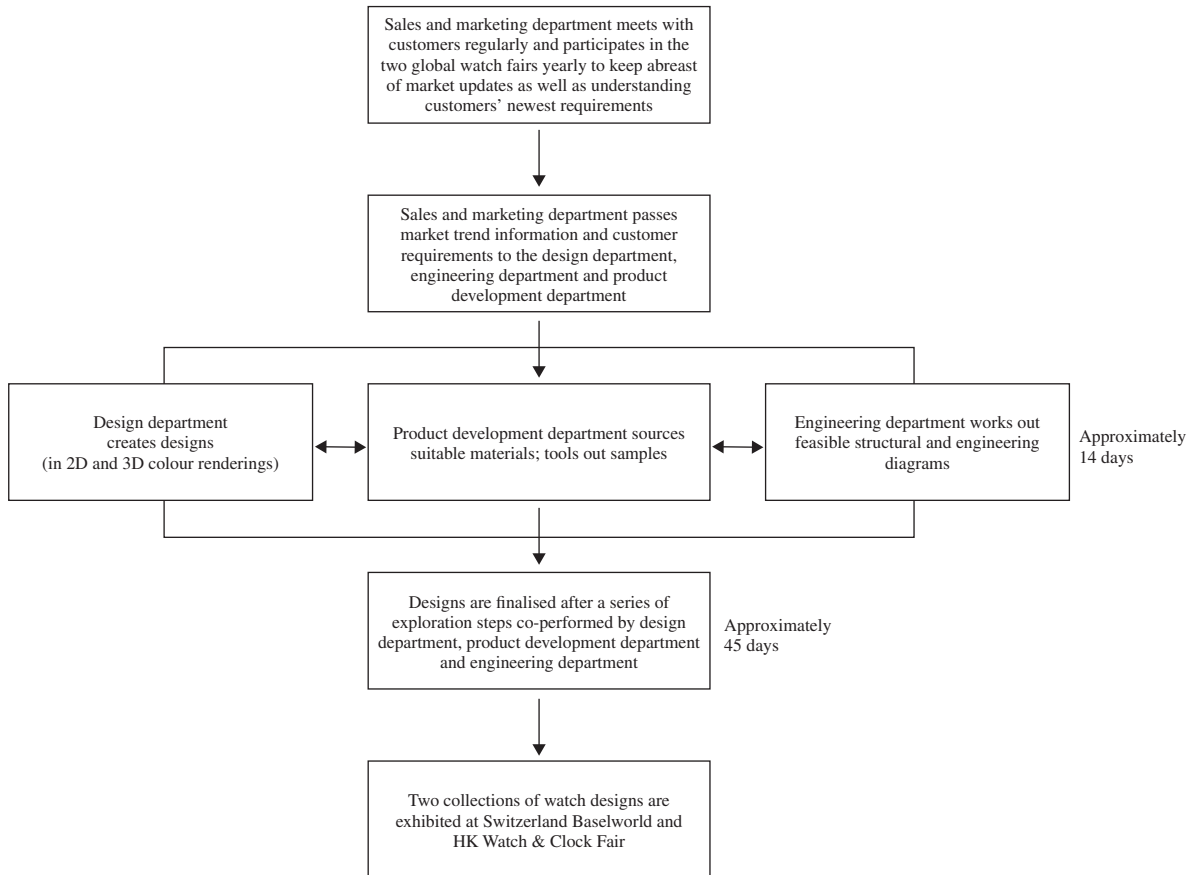
Product design and development is the first stage of our operation cycle. Since our establishment, we have placed strong emphasis on both artistic design and product engineering in order to manufacture trendy and quality products. Our Directors consider our ability to anticipate new market trends and to materialise creative ideas into fashionable products that suit changing consumer tastes is of significant importance to our sustainable growth in the competitive global watch market.

Design process

Our watches are designed by our in-house design team in collaboration with the product development department, engineering department and sales and marketing department. Our ODM customers generally either (i) select our design directly; (ii) make minor adjustments on our designs such as different colour or material; or (iii) request us to provide a new design based on their conceptual idea and/or requirements. For our branded product business, we design and develop our branded products on our own and do not have to seek approval from our branded

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product business customers. The following chart illustrates the typical product design and development process for our ODM business:



Design capabilities

With over 30 years of experience in the watch industry, Mr. Cheuk, our founder and the chairman of the Board has accumulated in-depth product and technical knowledge and has been in charge of the product design and development and the sales and marketing activities. We have a dedicated product design team consisting of 10 personnel and research and development team consisting of 10 personnel with a spread of experience up to 12.5 years as at the Latest Practicable Date. We regularly attend watch tradeshows and exhibitions to keep abreast of the latest trends in the watch market, and gain further industry know-how. We also meet regularly with our ODM customers to discuss the latest watch designs and manufacturing techniques and exchange new ideas. We also utilise the contemporary 3D printing skills to produce 3D printed prototype which our Directors consider to be a more timely and cost effective way than the traditional prototyping methods for our presentation of designs to the customers.

Capitalising on our strong product design and development capabilities, we had launched around 300 new watch designs for each of the two years ended 31 December 2017 for selection by our ODM customers covering a broad spectrum of designs in the categories of female and male, metal and non-metal banded, mechanical and quartz movement watches. Our Directors consider that the broad spectrum of designs and products are able to fit our global clientele with

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different preferences. In light of (i) the length of time required for the registration of our watch designs (over one year) and (ii) the volume of designs we generated each year and the need for new and fashionable designs from time to time, our Directors are of the view that it is not commercially justifiable to register our watch designs.

PROCUREMENT

Once the watch designs and specifications have been agreed between us and our ODM customers and the relevant purchase orders have been confirmed by our ODM customers, we will purchase all necessary watch components and parts and procure relevant services from our suppliers for mass production. The watch components and parts that we purchase mainly include watch case, movement, band, dial, hands, crown and packing materials. We also procure electro-coating services for the watch case, band and other metal parts. Except for movements which are either supplied by our ODM customers or procured by us from Japan and Switzerland through the relevant dealers in Hong Kong, we source the watch parts and related services from various suppliers who are generally Hong Kong companies either with their own production facilities in the PRC or cooperate with other companies with production facilities in the PRC. Our customers did not require us to source the watch components and parts from suppliers designated by them during the Track Record Period. Our purchases are mainly made in HKD.

Our Directors consider that the principal watch components and parts we use can be sourced from a number of other suppliers at prices comparable to those being offered by our existing suppliers. During the Track Record Period, we had not experienced any difficulty in sourcing watch components and parts and we do not anticipate any difficulty in this regard in the foreseeable future. Our Directors confirm that we have not encountered any issue regarding the legality of the source of supply of materials.

Basis of selection of suppliers

We have maintained a list of qualified suppliers and we evaluate the performance of these suppliers based on their performance including their defect rate, punctuality of delivery, production lead time, production capacity, price and payment terms and after-sales services. We update the qualified suppliers list regularly. Our Directors believe that our efficient supply chain management provide us the effectiveness on procurement of quality materials at competitive cost and ensure timely delivery of our products to our customers.

Prices of supplies

Prices of supplies are determined by reference to the quotations as agreed between us and the suppliers on an order by order basis. During the Track Record Period, we did not experience any material fluctuations in the material cost that had a material impact on our business, financial conditions or results of operations. Please see the section headed “Financial information – Key factors affecting our results of operations and financial condition – Materials cost” for a sensitivity analysis of our profit before tax during the Track Record Period resulting from hypothetical fluctuations in cost of materials.

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Major suppliers

For each of the two years ended 31 December 2017, the percentage of our purchase from our largest supplier accounted for approximately 12.1% and 13.0% of our total purchases respectively, while the percentage of our purchase from our five largest suppliers amounted to approximately 41.7% and 40.8% of our total purchases respectively. We have maintained a stable relationship with our five largest suppliers during the Track Record Period who have maintained business relationship with us for a period ranging from approximately 1 to 17 years. The table below sets out the breakdown of our five largest suppliers during the Track Record Period and their respective background information:

For the year ended 31 December 2016:

Rank	Supplier	Background and principal business activities	Major type(s) of goods or services purchased or procured by us	Year(s) of business relationship	Credit terms	Payment method	Purchases by us	
							HK\$'000	%
1	Supplier A	A Hong Kong company engaged in supply of watch parts and components	Cases and bands	3	60 days from the issue of monthly statement	Bank wire transfer	12,105	12.1
2	Supplier B	A Hong Kong company engaged in supply of watch parts and components	Cases and bands	11	90 days from the issue of monthly statement	Bank wire transfer	9,289	9.3
3	Supplier C	A Hong Kong company engaged in supply of watch parts and components	Cases and bands	17	90 days from the issue of monthly statement	Bank wire transfer	8,993	9.0
4	Supplier D	A Hong Kong company engaged in supply of watch parts and components	Cases and bands	7	90 days from the issue of monthly statement	Bank wire transfer	5,650	5.7
5	Supplier E	A Hong Kong company engaged in supply of watch parts and components	Bands	6	60 days from the issue of monthly statement	Bank wire transfer	5,481	5.5
Five largest suppliers combined:							41,518	41.7
Others:							58,135	58.3
Total purchases:							99,653	100.0

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For the year ended 31 December 2017:

Rank	Supplier	Background and principal business activities	Major type(s) of goods or services purchased or procured by us	Year(s) of business relationship	Credit terms	Payment method	Purchases by us		
							HK\$'000	%	
1	Supplier A	A Hong Kong company engaged in supply of watch parts and components	Cases and bands	3	60 days from the issue of monthly statement	Bank wire transfer	14,564	13.0	
2	Supplier B	A Hong Kong company engaged in supply of watch parts and components	Cases and bands	11	90 days from the issue of monthly statement	Bank wire transfer	9,515	8.5	
3	Supplier C	A Hong Kong company engaged in supply of watch parts and components	Cases and bands	17	90 days from the issue of monthly statement	Bank wire transfer	9,099	8.1	
4	Supplier F	A Hong Kong company engaged in supply of watch parts and components	Cases	2	60 days from the issue of monthly statement	Bank wire transfer/cheque	6,465	5.8	
5	Supplier G	A Hong Kong company engaged in the provision of electro-coating services	Electro-coating	1	60 days from the issue of monthly statement	Bank wire transfer	5,962	5.3	
							Five largest suppliers combined:	45,605	40.8
							Others:	66,151	59.2
Total purchases:							111,757	100.0	

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None of our Directors, their respective close associates or Shareholders (who or which, to the best knowledge of our Directors, owns more than 5% of the number of issued shares of our Company) had any interest in any of our five largest suppliers during the Track Record Period.

In addition, our Company and our Directors are not aware of, during the Track Record Period, any employment, financing or family relationship between (i) the five largest suppliers of our Group during the Track Record Period and (ii) our Group, our Directors, Shareholders (who or which, to the best knowledge of our Directors, owns more than 5% of the number of issued shares of our Company) and members of our senior management and their respective associates.

General terms of engagement with our suppliers

We generally do not enter into any long-term agreements with our suppliers and will only place individual purchase orders to our suppliers from time to time. The purchase order contains unit price and quantity for each purchase item, place and time of delivery, payment terms, warranty period, etc.. The credit period granted by our suppliers ranges from 30 to 120 days from the issue of monthly statements by our suppliers to us in general.

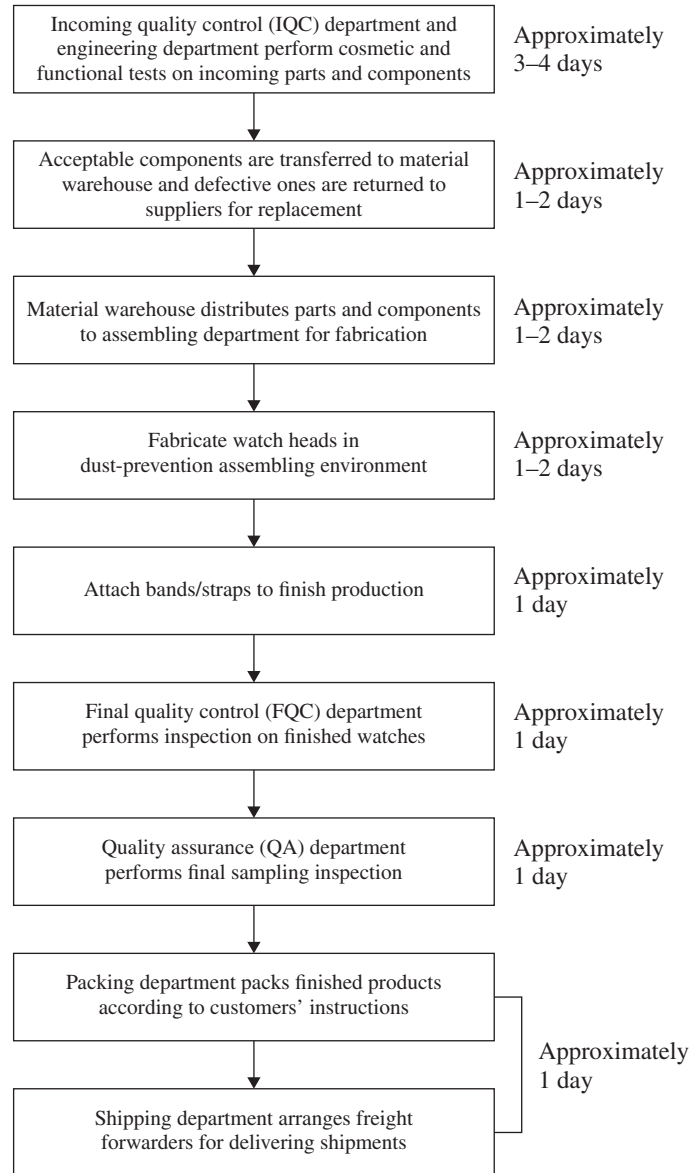
PRODUCTION

We generally commence production only when the purchase order of our ODM customers has been confirmed. The time required from the initial communication to the securing a purchase order from our ODM customers depends on the complexity of the design works involved. In some cases, our ODM customers may directly choose from our existing collection of watch designs or only make minor modifications on our designs and it may take as short as a few days to finalise the purchase order. For ODM customers who request for completely new and tailor-made watch designs, it may take around 1 week to 2 months or more to finalise the purchase order depending on the complexity of the products and the time for making sample products for their approval.

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Watch assembly process

The following chart illustrates our typical watch assembly process:



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Production facilities and capacities

Since 1 October 2005 and up to June 2017, we assembled our watch products at our old production plant located at Block B48, Tantou Western Industrial Area, Songgang Town, Baoan District, Shenzhen City, Guangdong Province, the PRC (the “**Old Production Plant**”) with a total GFA of approximately 4,050 sq.m. As we were not familiar with the relevant regulations governing the property title in the PRC, we were not aware that the landlord of the Old Production Plant did not possess valid title documents of the Old Production Plant when we entered into the relevant tenancy agreement until our PRC Legal Advisers (who were engaged by 3 Wells in 2012) advised 3 Wells that the landlord did not possess valid title documents. In order to strictly adhere to the relevant regulations governing the property title in the PRC before Listing, we relocated our production base to the Existing Production Plant in June 2017.

The Existing Production Plant covers a total GFA of approximately 2,400 sq.m.. The production, office and storage functions in the Old Production Plant were separated into three floors while we consolidated such functions on the same floor in the Existing Production Plant. Our Directors are of the view that such consolidation allows us to manage our operation and production effectively by reducing the logistics time of our staff and raw materials, and streamlining our production flow. Therefore, despite the reduction of the total area of our production plant resulted from the relocation, all essential production facilities of the Old Production Plant were relocated to the Existing Production Plant and we experienced no material interruption of our production as a result of the relocation and the normal production has resumed in July 2017. The relevant renovation cost of approximately HK\$3.6 million was recognised as our property, plant and equipment in our balance sheet and the relevant relocation cost and other miscellaneous expenses of approximately HK\$1.0 million was recognised as our administrative expenses in our profit and loss statement.

The following table sets out our theoretical maximum production capacities and approximate actual production volume and utilisation rate for the periods indicated.

	Year ended 31 December	
	2016	2017
Theoretical maximum production capacity ^{Note 1}	510,000	510,000
Actual production volume ^{Note 2}	465,195	428,061
Utilisation rate (%) ^{Note 3}	91.2	83.9

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Notes:

1. Our production capacity during any time period refers to the theoretical maximum pieces of finished watches our in-house production facility can assemble during such period. As we procure the watch parts from our suppliers and are generally involved in quality control and packaging of such watch parts for the production of SKD Kits, the production capacity of SKD Kits is not applicable. We estimate our in-house theoretical maximum production capacity of finished watches by our in-house production capacity of watch heads as the assembling of watch heads is typically the bottleneck in the production for our finished watches. The theoretical maximum production capacity of watch heads is estimated by the maximum production capacity of watch heads that we can produce in 7.5 hours per working day, 22 working days per month and 12 months per year, and taking into account other factors such as machines and equipment and number of production workers involved. Our Directors believe that the production capacity as so defined is in line with the practice in the watch industry.
2. Actual production volume refers only to the total pieces of watch heads we have actually assembled in our in-house production facility. Our watchmakers may work overtime beyond 7.5 hours a day and 22 working days per month from time to time, which may result in the production volume surpassing the production capacity. During the Track Record Period, our sales volume of finished watches was significantly larger than our actual production volume of watch heads as certain amount of our sales volume of finished watches were assembled by our subcontractors. For details, please refer to the paragraph headed "Subcontracting" in this section.
3. Utilisation rate equals actual production volume of watches divided by theoretical maximum production capacity.

The utilisation rate of our production capacity decreased from approximately 91.2% for the year ended 31 December 2016 to approximately 83.9% for the year ended 31 December 2017 principally due to the relocation of our production plant in June 2017 and therefore we outsourced more our orders to our subcontractors for assembling around that time.

Machinery

As our production mainly involves the manual assembling of watch components for our watches, we do not utilise machinery to any substantial extent, except for the hand setting machines, the 3D printer for printing watch design prototypes, various quality control equipment such as water-resistance testing machines and laser etching machines for the etching of logos or other words/numbers as requested by our ODM customers.

We assume an expected useful life of 5 to 10 years for our equipment. We carry out repair and maintenance of our major equipment regularly and also during planned annual maintenance. Our production staff keeps regular log of any repairs and maintenance. Some of our major pieces of equipment have reached or will soon reach the expiration of their expected useful life for depreciation purposes. We will continue to use these machineries with regular repair and maintenance, with no immediate schedule for replacement, as long as they continue to be functional.

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The following table sets out the principal machinery used for our Group's business and their information as at 31 December 2017:

Machinery	Number of units	Appropriate weighted average remaining useful life (months) <i>(Note)</i>
Hand setting machines	2	0
3D printer	1	15
Water-resistance testing machines	16	23
Laser etching machines	2	7

Note: The weighted average remaining useful life of our machinery as set out in the above table is based on the weighted average of the remaining depreciable period of each unit of machinery determined in accordance with our applicable accounting policies, under which the depreciation is calculated using the straight line method to allocate their costs to their residual values over the estimated useful lives. When the machinery is fully depreciated, the remaining useful life will be zero.

SUBCONTRACTING

Depending on a number of factors including the fees quoted by the subcontractors and the complexity of the assembly process, we may outsource the watch assembly process to subcontractors located in the PRC. We also outsource the assembly process of our branded watches to a subcontractor in Switzerland.

During the Track Record Period, we had engaged four subcontractors for watch assembly. Other than the two framework subcontracting agreements we entered with our existing two subcontractors in the PRC in August 2017 setting out general terms in relation to confidentiality, rights and responsibilities, quality standards, pricing, etc., we generally entered into individual purchase orders with our subcontractors, specifying the quantity, quality specifications, cost, delivery arrangement and penalties for delayed delivery. We provide the inspected watch parts and components, design and technical specifications to our subcontractors. Since July 2017, we have also placed one of our semi-auto assembly lines to the production facilities of one of our subcontractors in the PRC without charge and such semi-auto assembly line is operated by the staff of the subcontractor and is exclusively used for the assembling of our products. In light of a special tool i.e. movement holder is required to operate the semi-auto assembly line and such tool will only be provided by us to the subcontractor when we procure its subcontracting services and will be returned to us after completion of the relevant subcontracting orders, our Directors believe that we are able to exercise our control over the semi-auto assembly line effectively and ensure it is exclusively used for the assembling of our products. As the semi-auto assembly line is operated by the staff of the subcontractor, any personal injury arose from the operation of the semi-auto assembly line will be borne by the subcontractor. Also, according to

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the framework subcontracting agreement we entered into with the said subcontractor, the subcontractor shall be liable to us for any damage to the semi-auto assembly line. We expect to continue to place the semi-auto assembly line in the subcontractor's production facility in the foreseeable future. Our subcontractors offered credit terms of up to approximately 30 days and the payments were settled by telegraphic transfer in HK dollars. Our Directors confirm that the fees payable to the subcontractors were determined on normal commercial terms and arm's length negotiation with reference to the complexity of the designs, technical requirements, labour and overheads required to manufacture the products and quantity of items required to be processed.

Set out below the breakdown of sales volume and revenue generated from finished watch segment contributed by the products assembled by our in-house production plant and by our subcontractors:

	Year ended 31 December					
	2016			2017		
	<i>Pieces</i>	<i>HK\$'000</i>	<i>% of total</i>	<i>Pieces</i>	<i>HK\$'000</i>	<i>% of total</i>
By in-house						
production plant	440,292	92,703	77.1	422,619	89,833	68.7
By subcontractors	<u>220,717</u>	<u>27,474</u>	<u>22.9</u>	<u>289,169</u>	<u>40,966</u>	<u>31.3</u>
	<u><u>661,009</u></u>	<u><u>120,177</u></u>	<u><u>100.0</u></u>	<u><u>711,788</u></u>	<u><u>130,799</u></u>	<u><u>100.0</u></u>

For each of the two years ended 31 December 2017, the subcontracting costs that we incurred amounted to approximately HK\$1.3 million and HK\$1.4 million respectively, representing approximately 1.2% and 1.2% of our total cost of sales in the respective periods. Our subcontracting costs accounted for a relatively low proportion of our total cost of sales during the Track Record Period as the subcontracting costs per product assembled by our subcontractors in the PRC (which accounted for all and approximately 95.6% of our total subcontracting costs for each of the two years ended 31 December 2017 respectively) was relatively low and ranged from approximately HK\$2.6 to HK\$9.5 for the two years ended 31 December 2017 respectively.

Our average subcontracting cost per finished watches, being the total subcontracting costs incurred for the year divided by the pieces of finished watches sold during the year that were assembled by our subcontractors, were approximately HK\$5.8 and HK\$4.9 for the two years ended 31 December 2017 respectively, which was significantly lower than the average direct labour costs per finished watches, being the total direct labour costs incurred for the year divided by the pieces of finished watches sold during the year that were assembled by our in-house production plant of approximately HK\$12.7 and HK\$14.8 for the same years principally due to the reason that our direct labour costs for production of our finished watches also included costs of other staff that were not solely involved in the watch assembling process (including but not limited to staff costs for product development, procurement, quality control,

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warehousing and packaging) which were not incurred solely by our subcontractors. Indeed, according to our internal record, the total direct labour costs incurred solely for our in-house watch assembling process were only approximately HK\$1.9 million and HK\$2.1 million for the two years ended 31 December 2017 respectively and hence the average direct labor costs incurred solely for our in-house watch assembling process per finished watches, being the total direct labour costs incurred solely for our in-house watch assembling process divided by the pieces of finished watches sold during the year that were assembled by our in-house production plant, were only approximately HK\$4.8 and HK\$5.5 for the same years respectively, which we are of the view that are comparable to our average subcontracting cost per finished watches.

None of our Directors, their respective close associates or Shareholders (who or which, to the best knowledge of our Directors, owns more than 5% of the number of issued shares of our Company) had any interest in any of our subcontractors during the Track Record Period.

SALES AND MARKETING

Sales and delivery of our products

We arrange delivery of the finished watches and SKD Kits to our customers after all necessary quality control processes are satisfactorily completed. During the Track Record Period, although our customers are located around the world, our sales to our ODM customers were generally based on “FOB Hong Kong” terms, i.e. the title and risk of our ODM watch products would be passed to our ODM customers immediately when the watch products are delivered to the warehouses of the shipping companies in Hong Kong designated by our ODM customers. The title and risk of our branded products would be passed to our branded product customers immediately when they pick up the products from our warehouse. To the best knowledge of our Directors, our branded product customers will distribute our branded products to the end consumers through their retail outlets in Hong Kong during the Track Record Period.

Engagement of sales representatives

During the Track Record Period, we have engaged a company based in Germany, an Independent Third Party, as our sales representative to provide sales related services to our Group including, among others, approaching potential ODM customers located in Europe and Australia and procuring sales orders from them. During the Track Record Period, we also pay sales commission to Smart Hill Enterprises Limited (“**Smart Hill**”), our connected person, for its provision of sales related services to us including, among others, handling client relationships of and procuring sales orders from our two customers in Iran and Brazil, respectively. In return for their services, we pay to the sales representatives an amount calculated generally on the basis of a certain percentage of the sales amount procured by them. For each of the two years ended 31 December 2017, we have paid approximately HK\$2.7 million and HK\$2.5 million, representing approximately 43.8% and 40.0% of our selling and distribution expenses during the same years, respectively to the aforesaid sales representatives for their services. As at the Latest Practicable Date, we had ceased our sales to the aforesaid two customers in Iran and Brazil, we therefore expect that we will not require the sales related services from Smart Hill going forward and after Listing.

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Sales and marketing department

Our sales and marketing department meets with our customers at least twice a year. The primary responsibility of our sales and marketing department is to foster business relationships with our existing customers and to capture business opportunities with potential customers. Through our long business relationship with our customers, we are able to obtain their direct feedback and their customers' feedback on the latest market information and trends. It is also one of the major tasks of our sales and marketing department to obtain the latest market information and trends of watch products and pass the same to our design department and the product development department.

Marketing and promotion

We have been attending the Baselworld in Basel, Switzerland every year since 1989 and Watch and Clock Fair in Hong Kong every year since 1999. We display samples of our watches with different designs at our stalls in each of these trade shows to attract prospective ODM customers. Our Directors are of the view that setting up our booths in the tradeshow and exhibitions are important marketing activities for us as they provide us with exposure to potential ODM customers worldwide especially for markets not yet developed by our Group and an opportunity to maintain our relationships with our existing ODM customers.

We mainly reach our potential e-commerce customers by our company website and referral from our existing customers. As part of our marketing strategy for our branded watch, we have engaged a Hong Kong celebrity as our spokesperson in August 2017 to further attract potential customers of our branded watches and increase our brand recognition.

Pricing policy

The selling price for all types of our products during the Track Record Period was on a cost-plus basis and the target profit margin was determined through negotiations with our customers case-by-case taking into consideration of, among others, size of the orders by our customers, our relationships with the customers, product quality and complexity.

Seasonality

Our sales is affected by seasonality. Sales fluctuations throughout the year are common for the watch industry which is subject to the seasonal purchase patterns of consumers. During the Track Record Period, we recorded the highest sales during the fourth quarter of a year attributable to the shipment for Christmas holiday. The table below sets out the breakdown of our turnover by quarter for each of the two years ended 31 December 2017:

	Year ended 31 December			
	2016		2017	
	HK\$'000	%	HK\$'000	%
1st quarter	21,698	14.3	32,456	18.6
2nd quarter	40,078	26.4	33,175	19.0
3rd quarter	38,072	25.1	46,721	26.7
4th quarter	52,045	34.2	62,465	35.7
Total	<u>151,892</u>	<u>100.0</u>	<u>174,817</u>	<u>100.0</u>

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Customer profile

Our ODM customer are watch brand owners which distribute their watch products either directly (through their retail sales channels) or indirectly (through other watch distributors) to the end consumers. The customers of our branded products are watch distributors. We are not exclusive supplier of our customers. Our customers are located around the world in particular in Hong Kong, Brazil, UAE Turkey and EU of which each accounted for over 5.0% of our total revenue in any of the years during the Track Record Period and in aggregate accounted for approximately 81.1% and 81.7% of our total revenue during the Track Record Period respectively. Set out below is a breakdown of our revenue by locations of our customers during the Track Record Period:

	Year ended 31 December			
	2016		2017	
	HK\$'000	%	HK\$'000	%
Hong Kong <i>Note 1</i>	62,940	41.4	79,876	45.7
Brazil	20,513	13.5	31,755	18.2
UAE	7,108	4.7	9,842	5.6
Turkey	8,173	5.4	4,030	2.3
Others <i>Note 2</i>	53,158	35.0	49,134	28.2
	<u>151,892</u>	<u>100.0</u>	<u>174,817</u>	<u>100.0</u>

Notes:

1. For the year ended 31 December 2017, we recorded a total sales amount of approximately HK\$1.8 million for our branded products from customers located in Hong Kong.
2. Others include Armenia, Australia, Austria, Bangladesh, Belgium, Bulgaria, PRC, Colombia, Czech Republic, Denmark, Finland, France, Germany, Greece, Netherlands, Hungary, India, Iran, Ireland, Israel, Italy, Malaysia, Mexico, New Zealand, Norway, Philippine, Poland, Portugal, Russia, Saudi Arabia, Singapore, Slovak Republic, South Africa, Spain, Sweden, Switzerland, Thailand, United Kingdom and United States. For the two years ended 31 December 2017, our revenue generated from EU was approximately HK\$24.5 million and HK\$17.3 million and accounted for approximately 16.1% and 9.9% of our total revenue respectively.

Major customers

For each of the two years ended 31 December 2017, the percentage of our revenue from our largest customer accounted for approximately 30.0% and 29.4% of our total revenue respectively, while the percentage of our total revenue from our five largest customers amounted to approximately 54.5% and 60.4% of our total revenue respectively. We have maintained a stable relationship with our five largest customers who have maintained business relationship with us for a period ranging from approximately 3 to 10 years. The table below sets out the breakdown of our five largest customers during the Track Record Period and their respective background information:

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For the year ended 31 December 2016:

Rank	Customer	Background and principal business activities	Major geographical markets targeted by the brands operated by the relevant customer	Major type of products sold by us	Year(s) of business relationship	Credit terms	Payment method	Revenue recognised <i>HK\$'000</i> %		
1	Customer A	A Hong Kong based private company principally engaged in the sales and distribution of its own brand watch products	South East Asia	Finished watches	10	30 or 90 days from the date of invoice	Bank wire transfer/cheque	45,544	30.0	
2	Customer B	A Brazilian based private company principally engaged in the import, assembling, distribution and wholesale of watch products	Brazil	SKD Kits	8	30 days from the date of invoice	Bank wire transfer	19,200	12.6	
3	Customer Group C	Comprises Customer C1, Customer C2, Customer C3, Customer C4 and Customer C5, which are under common ownership. The holding company of Customer Group C is listed in Hong Kong and is principally engaged in watch retailing, optical retailing and the wholesale trading of watches and optical frames	Hong Kong and the PRC	Finished watches	3	60 days from the date of invoice	Bank wire transfer	6,628	4.4	
4	Customer D	A Turkey based private company principally engaged in the trade of watch products	Turkey	Finished watches	10	30 days from the date of invoice	Bank wire transfer	6,221	4.1	
5	Customer E	A Saudi Arabia based private company principally engaged in the retail sales of watch products and accessories	Saudi Arabia	Finished watches	7	30 or 60 days from the date of delivery	Bank wire transfer	5,253	3.5	
								Five largest customers combined:	82,847	54.5
								Others:	69,045	45.5
								Total:	151,892	100.0

BUSINESS

For the year ended 31 December 2017:

Rank	Customer	Background and principal business activities	Major geographical markets targeted by the brands operated by the relevant customer	Major type of products sold by us	Year(s) of business relationship	Credit terms	Payment method	Revenue recognised	
								HK\$'000	%
1	Customer A	A Hong Kong based private company principally engaged in the sales and distribution of its own brand watch products	South East Asia	Finished watches	10	30 or 90 days from the date of invoice	Bank wire transfer/cheque	51,344	29.4
2	Customer B	A Brazilian based private company principally engaged in the import, assembling, distribution and wholesale of watch products	Brazil	SKD Kits	8	30 days from the date of invoice	Bank wire transfer	25,226	14.4
3	Customer Group C	Comprises Customer C1, Customer C2, Customer C3, Customer C4 and Customer C5, which are under common ownership. The holding company of Customer Group C is listed in Hong Kong and is principally engaged in watch retailing, optical retailing and the wholesale trading of watches and optical frames	Hong Kong and the PRC	Finished watches	3	60 days from the date of invoice	Bank wire transfer	15,983	9.1
4	Customer F	A Brazilian based private company principally engaged in the manufacture of jewellery and watch products	Brazil	SKD Kits	7	Nil	Bank wire transfer	6,529	3.7
5	Customer G	An Australian based company principally engaged in the retail sales of jewellery and watch products. The holding company of Customer G is listed in Australia	Australia, New Zealand, Canada and United States	Finished watches	9	30 days from the date of invoice	Bank wire transfer	6,496	3.7
Five largest customers combined:								105,579	60.4
Others:								69,238	39.6
Total:								<u>174,817</u>	<u>100.0</u>

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None of our Directors, their respective close associates or Shareholders (who or which, to the best knowledge of our Directors, owns more than 5% of the number of issued shares of our Company) had any interest in any of our five largest customers during the Track Record Period.

In addition, our Company and our Directors are not aware of during the Track Record Period, any employment, financing or family relationship between (i) the five largest customers of our Group during the Track Record Period and (ii) our Group, our Directors, Shareholders (who or which, to the best knowledge of our Directors, owns more than 5% of the number of issued shares of our Company) and members of our senior management and their respective associates.

Major terms of engagement with our customers

During the Track Record Period and up to the Latest Practicable Date, other than Customer Group C which we entered into framework manufacturing agreements with setting out the general terms in relation to delivery terms, payment method, intellectual property rights, etc. for the term of one year, we did not enter into any long-term agreement with our customers. Our customers generally place purchase orders to us from time to time. The purchase order mainly contains terms and conditions including delivery date, payment term, settlement currency, shipping term, unit price, quantity and specification for each purchased watch model, and after-sales services. We may accept certain kind of requests by our customers on their ordered products (e.g. in terms of product quality) after our confirmation of purchase order with them on case by case basis considering a number of factors including our relationships with the relevant customers, size of orders etc. Acceptance of such request by us after confirmation of purchase orders between us and our customers may cause us to incur additional cost of production. If we were not able to pass such cost to our customers, our gross profit margin shall be affected. For details, please refer to paragraph headed “Risk factors – Risks relating to our business – Any unanticipated request by our customers to our products after our confirmation of sales order with them might affect our profitability”.

The product warranty period granted to our customers is generally one year from the date of delivery for manufacturing defects. We did not make any warranty provision during the Track Record Period as our customers generally inspect our products before delivery and therefore the manufacturing defects were immaterial during the Track Record Period. Other than that we suggested the retail prices of our branded products to our branded product customers, the major terms of purchase orders placed by our branded product customers are materially similar to our ODM customers.

Our customers generally settled our payments by way of telegraphic transfer in USD and HKD during the Track Record Period. We generally grant to our customers a credit period of 30 to 90 days from the date of invoices based on factors such as reputation, credibility, length of business relationships with us, and historical payment records. For certain customers with long-established relationship and good past repayment histories, a longer credit period of more than 90 days may be granted.

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For customers we granted a credit period to during the Track Record Period, we generally had factoring loan arrangements with commercial banks in Hong Kong pursuant to which the banks purchase the confirmed invoice value of our customers and such customers shall pay the amounts outstanding in the invoices to the banks. Subsequently when such customers settled the relevant invoices by making payments to the banks, the banks would reimburse the same amount to us net of certain fees and charges. By assigning our trade receivables to the banks, we were at our discretion to draw down certain cash advances, which were generally 80% to 85% of the invoice value factored during the Track Record Period, from the banks and such cash advances are treated as factoring loans from banks. Under the circumstances that we obtained factoring loans from the banks, when the relevant customers settled the relevant invoices by making payments to the banks, the banks would set-off such amount, net of certain fees and charges, against the factoring loans.

According to the terms of the factoring loan arrangement, upon production of sufficient documentary proof, the relevant invoiced amount of our customers is either treated as a credit protected debt or credit unprotected debt by the banks. A credit protected debt may become a credit unprotected debt when the debt is in dispute, or when certain events stipulated in the factoring loan agreement (e.g. our breach of the terms of the factoring loan agreement or other events which in the banks' sole opinion is likely to adversely affect our ability to comply with our obligations) occur, entitling the banks to terminate the agreement. The banks may at their sole discretion reject and reassign any such credit unprotected debt to us at any time. On the other hand, for credit protected debt, under certain events stipulated by the banks e.g. if the relevant customer failed to pay full amount for a stipulated period after the payment due date because of its financial inability to pay its indebtedness, the banks shall pay us the aggregate of (i) any amount they received prior to the occurrence of such events, and (ii) certain percentage of the unpaid amount of the invoices factored, which were generally 90% during the Track Record Period, after setting off against any factoring loans we obtained and net of certain fees and charges. Under such factoring loan arrangements, non-payment risks by our customers will be shared by the banks, and therefore our Directors consider that such arrangements will minimise our cash flow and credit risks.

Nevertheless, as the banks may at their sole discretion reject and reassign any credit unprotected debt to us at any time and a credit protected debt may become a credit unprotected debt in the banks' sole opinion as discussed above, we considers that such protective provisions contained in the factoring loan agreements would not allow us to derecognise our trade receivables immediately from accounting perspective. As such, the relevant invoice value, even being factored to the banks, will be maintained as our trade receivables until our customers pay the banks in respect of the trade receivables.

Factoring loan arrangements are subject to discounting charges and services charges or commissions. During the Track Record Period, the discounting charges for our factoring loan arrangements were generally the prevailing market interest rate or cost of bank's fund plus certain premium and the service charges were generally a certain percentage on the invoice value factored.

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The carrying value of trade receivables factored to the banks as of 31 December 2016 and 31 December 2017 was HK\$20.6 million and HK\$44.3 million respectively, representing approximately 91.8% and 90.2% of our corresponding trade receivable as at 31 December 2016 and 31 December 2017, respectively.

During the Track Record Period and up to the Latest Practicable Date, we had not experienced any major default in payments or bad debts from our customers which would materially affect our financial conditions and operating results.

QUALITY CONTROL

To ensure the provision of quality products to our customers, we have implemented a series of stringent internal quality control procedures for watch manufacture process. We have implemented quality control procedures in each critical step, from the watch components and parts inspection to the assembly process control (including our in-house production and subcontracting) and further to the final product inspection to ensure the quality of our products meets the requirements and expectations of our customers. Our Directors confirm that, during the Track Record Period, we have complied with the product quality standards as required under the relevant PRC laws and regulation in all material aspects, and did not experience any significant problem of quality defects or any product returns from our customers.

Quality control team

The quality control and assurance functions are performed by various quality control teams of our Group, namely, the incoming quality control team (the “**IQC**”) which is responsible for checking the quality of the watch parts and components we received from our suppliers, final quality control team (the “**FQC**”) which is responsible for checking the quality of the final watch products during the production process and quality assurance team (the “**QA**”) which is responsible for additional final sample checking on the quality of the packaged final watch products before shipment. As at the Latest Practicable Date, there were 17, 11 and 2 staff in the IQC, the FQC and the QA respectively.

Parts and components quality control

Upon receipt of parts and components delivered by our suppliers, we will ensure the quantity delivered is correct. Before assembly, incoming parts and components delivered by the suppliers will also be inspected by the IQC through our in-house quality control process to ensure that they meet the required specifications and quality standards of the customers’ orders. When defects are found or when the parts and components do not match with the required specifications and quality standards, we will request for return and replacement of the said parts and components.

Final product quality control

After assembly of the products in-house or by our subcontractors, the FQC and the QA shall perform another series of inspection on the quality and functionality of the finished goods to ensure that they meet the order specifications and quality standards. Inspection metrics include water resistance, size, colour, finishing and durability of the watches.

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Our quality management certification

To maintain consistent quality services for our customers, we have established formal quality management system and hold the following quality management certification:

Certification	Accreditation Areas of		Holder	Validity period
	authority	accreditation		
ISO 9001: 2015/GB/ T19001-2016	DNV GL Business Assurance B.V.	Quality management systems	3 Wells Shenzhen 3 Wells	19 July 2017– 19 July 2020

We obtained the ISO 9001 certification back in 1996 and satisfied the relevant annual review since then. While the ISO 9001 certification has a 3-year validity period, the accreditation authority will create periodic audit schedule for regular audits over the three-year period, in order to confirm our Group's on-going compliance with specified requirements of the standard while re-evaluating performance in focus areas, and at least one audit per year is required. In order to renew the certificate, re-certification audit shall be completed within specified period, after that the auditors will generate report, and the headquarter of the accreditation authority will review the reports. The authority will then report approval and issue certificates. The whole process takes around 1 month to several months.

TRANSFER PRICING ARRANGEMENT

Upon receipt of the sales orders from our customers, 3 Wells purchases the watch components and parts from third party suppliers and sells these watch components and parts to Shenzhen 3 Wells. Shenzhen 3 Wells, being our production arm, produces the products pursuant to the sales orders and sells the finished products to 3 Wells for its onward sales to the customers.

In order to assess whether the sales between 3 Wells and Shenzhen 3 Wells were carried on an arm's length basis, we have engaged an independent tax consultant (the "**Tax Consultant**"), the tax department of our Reporting Accountants, to conduct an analysis on the above transactions based on the Organisation for Economic Cooperation and Development's Transfer Pricing Guidelines for Multinational Enterprise and Tax Administrations. An interview had been conducted by the Tax Consultant with our staff to understand the functions and risks of each party to the transactions. In accordance with the transfer pricing analysis prepared by the Tax Consultant, given the function and risk profile of the parties involved in the transactions, a transactional net margin method is selected as an appropriate transfer pricing analysis methodology to test the arm's length nature of the above transactions. Shenzhen 3 Wells is considered as the party that is less complex in terms of the functions performed and risks assumed and is therefore selected as the test party of the analysis. The Tax Consultant performed a search to identify potentially comparable companies which are engaged in the manufacturing of watches, with reference to the products of Shenzhen 3 Wells. The profitability margins of

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these similar independent manufacturers are used to determine the profit attributable to the functions carried out by Shenzhen 3 Wells. Based on the analysis, the weighted average mark-up on total costs of Shenzhen 3 Wells falls within the inter-quartile range derived from the accepted comparable companies. In view of the benchmarking analysis performed, the Tax Consultant is of the view that the intragroup transactions of our Group during the Track Record Period are in compliance with the arm's length principle.

INVENTORY

Our inventory comprises mainly (i) watch components and parts; (ii) work in progress; and (iii) finished goods. For interchangeable raw materials such as precious stones and movements, we shall keep a certain level of inventory. For non-interchangeable raw materials, we source upon confirmation of production orders. We also maintain a certain level of finished watches for our own branded product business. As at 31 December 2016 and 2017, our inventories amounted to approximately HK\$16.2 million and HK\$14.4 million respectively and representing approximately 14.3% and 12.0% of our current assets, respectively. Please see the section headed "Financial Information – Description of certain items of statements of financial position – Inventories" in this prospectus for a detailed analysis on our inventory level.

INSURANCE

We maintain insurance policies against loss or damage to our office, equipment and facilities, employee compensation, cargo and inventory. We do not maintain any product liability insurance. During the Track Record Period and up to the Latest Practicable Date, we had not received any material claim or allegation for breach of product liability in relation to our watch products. Our Directors are of the view that the coverage from these insurance policies is adequate to cover the risks to which we may be exposed to and is in line with the industry norm. For the two years ended 31 December 2017, our insurance expenses amounted to approximately HK\$0.4 million and HK\$0.4 million, respectively. The Group had not made any material claim on insurance during the Track Record Period and up to the Latest Practicable Date.

OCCUPATIONAL HEALTH AND SAFETY

In order to ensure the occupational health and safety of our employees, we implement operational procedures and safety standards for our manufacturing process. We also carry out equipment maintenance on a regular basis to ensure the occupational health and safety of our employees. We will continue our efforts in ensuring the occupational health and safety of our employees and comply with relevant labour, occupational health and safety laws and regulations.

During the Track Record Period and up to the Latest Practicable Date, we have not committed any event of material non-compliance in relation to health and safety matters, none of our employees has been involved in any major accident or work injury in the course of their employment and we have not been subject to disciplinary actions with respect to labour protection issues.

ENVIRONMENTAL COMPLIANCE

Our production activities in the PRC are subject to various PRC environmental protection laws and regulations. The operation of our existing facilities does not cause any material environmental pollution.

We obtained a confirmation from the relevant environmental protection authorities in the PRC, among others, that our production facility has complied in all material aspects with the relevant environmental protection rules in its production, and no administrative penalty of any kind has been imposed on us by the relevant environmental authorities since we started to operate.

We do not produce material quantity of industrial waste in our production process and our Directors do not anticipate that our production will produce any material quantity of industrial waste in the future. We expect the future cost of compliance with the relevant environmental protect laws and regulations in the PRC will be minimal in the following years.

Our Directors confirm that we comply in all material aspects with relevant requirements under the PRC environmental protection laws and regulations during the Track Record Period and up to the Latest Practicable Date.

INTELLECTUAL PROPERTY RIGHTS

We have registered the domain “*3wells.com*”, “*Hanveygroup.com.hk*”, “*Hanveygroup.com*” and “*grandber.com*”. We have also registered trademarks for 3 Wells and Cheer Wells, and have applied for registration of trademarks for Cheer Wells. For details of our intellectual property rights, please refer to the section headed “B. Further information about our business – 2. Intellectual property rights of our Group” in Appendix V to this prospectus.

During the Track Record Period and up to the Latest Practicable Date, we had not received any material claim against our Group for infringement of any intellectual property right nor were we aware of any pending or threatened claims in relation to any such infringement, nor had any material claim been made by us against third parties in relation to the infringement of intellectual property rights owned by us or third parties.

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EMPLOYEES

As at the Latest Practicable Date, we had a total of 180 employees, respectively. The following table sets out a breakdown of the number of employees by principal functions as at the Latest Practicable Date:

	Hong Kong	PRC	Total
Directors	3	–	3
Human Resources	–	2	2
Administration	4	12	16
Information technology	2	0	2
Sales and marketing	3	8	11
Product design and development	–	10	10
Finance	4	3	7
Product engineering	0	5	5
Production	2	60	62
Quality control	0	30	30
Research and development	1	9	10
Procurement	1	18	19
Shipping	0	3	3
Total	20	160	180

We consider that we have maintained good relationships with our employees during the Track Record Period and up to the Latest Practicable Date. We have not experienced any strike, labour dispute or other labour disturbances which have materially and adversely interfered with our operations during the Track Record Period and up to the Latest Practicable Date.

We generally recruit our employees through placing advertisements in the open market with reference to factors such as their experience, qualifications and expertise required for our business operations. We endeavour to use our best effort to attract and retain appropriate and suitable personnel to serve our Group. Our Group assesses the available human resources on a continuous basis and will determine whether additional personnel are required to cope with the business development of our Group.

The remuneration package our Group offered to our employees includes salary, bonuses, medical insurance and other cash subsidies. In general, our Group determines employee salaries based on each employee's qualifications, position and seniority. Our Group has established an annual review system to assess the performance of our employees, which forms the basis of our decisions with respect to salary raises, bonuses and promotions.

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PROPERTY

As at the Latest Practicable Date, our Group owned five properties in Hong Kong, the details of which are set out below:

Property	Usage
Unit 3, 15th Floor, Tower One, Ever Gain Plaza, No. 88 Container Port Road, Kwai Chung, New Territories, Hong Kong	Partly as investment property and the remaining part, in conjunction with Unit 5 and portion of Unit 6, 15th Floor, Tower One, Ever Gain Plaza below, as our office
Unit 5, 15th Floor, Tower One, Ever Gain Plaza, No. 88 Container Port Road, Kwai Chung, New Territories, Hong Kong	Our office
Unit 6, 15th Floor, Tower One, Ever Gain Plaza, No. 88 Container Port Road, Kwai Chung, New Territories, Hong Kong	Partly as investment property ^(Note) and the remaining part, in conjunction with Unit 5 and portion of Unit 3, 15th Floor, Tower One, Ever Gain Plaza above, as our office
House 20, Greenery Garden, 3 Fairview Park Boulevard, Remaining Portion of Lot No. 4767 in DD104, Yuen Long, New Territories, Hong Kong	Directors' quarter
Private Car Parking Space No. P73, On 1st Floor of Ever Gain Plaza, No. 88 Container Port Road, Kwai Chung, New Territories, Hong Kong	Private car parking space

Note: Cheer China (as landlord) has leased this property to Smart Hill (as tenant) for the purpose as office for a term of two years commencing on 1 July 2017 and ending on 30 June 2019. For further details of the above rental agreement, please refer to the paragraph headed "Connected Transactions — Fully Exempt Continuing Connected Transactions — Office Tenancy Agreement" of this prospectus.

For further details of the part of Unit 3 and Unit 6, 15th Floor, Tower One, Ever Gain Plaza, which are used as investment properties, please refer to Appendix III to this prospectus.

Our Directors confirm that except for the property interests in the valuation report as shown in Appendix III to this prospectus, no single property interest that forms part of our Group's non-property activities has a carrying amount of 15% or more of our total assets.

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As the Latest Practicable Date, we leased the following properties for our operations:

Property	Landlord	Usage	Rental	Term
Vineyard Mouton Avenue House 15, No. 23 Ngau Tam Mei Road, Yuen Long, New Territories, Hong Kong	Mr. Cheuk ^(Note 1)	Directors' Quarter	HK\$60,000 per month	From 1 July 2017 to 30 June 2019
5th floor, Building No. 9, Zhengzhong Technology Park, Dayang Community, Baoan District, Shenzhen City, Guangdong Province, the PRC	An Independent Third Party	Production plant and office	RMB41,173 per month from 1 April 2017 to 30 June 2018 and RMB59,499 per month from 1 July 2018 to 31 August 2020	From 1 April 2017 to 31 August 2020 ^(Note 2)
Room 601-604, 708, 710, 713-717, 738-741, Building 11, Dormitory of Zhengzhong Industry Quarter, the PRC	An Independent Third Party	Staff dormitory	RMB11,250 per month	From 16 March 2017 to 30 June 2018
Room 425-429, Building 11, Dormitory of Zhengzhong Industry Quarter, the PRC	An Independent Third Party	Staff dormitory	RMB3,900 per month	From 1 April 2018 to 31 March 2019
Room 422-423, Building 11, Dormitory of Zhengzhong Industry Quarter, the PRC	An Independent Third Party	Staff dormitory	RMB1,600 per month	From 1 April 2018 to 31 March 2019
Room 412, Building 13, Dormitory of Zhengzhong Industry Quarter, the PRC	An Independent Third Party	Staff dormitory	RMB780 per month	From 1 April 2018 to 31 March 2019

Notes:

1. Mr. Cheuk is a connected person of our Company for the purpose of the GEM Listing Rules. For further details of the rental agreement, please refer to the section headed "Connected Transactions – Fully Exempt Continuing Connected Transactions – Director's Quarter Tenancy Agreement" of this prospectus.
2. Pursuant to the Existing Production Plant Tenancy Agreement, the lessor and our Group have the right to terminate the agreement before expiration as long as a 3 months written notice is served to each other.

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The landlords of the above staff dormitories in the PRC failed to provide the title documents of the properties. According to our PRC Legal Advisers, our Group as the tenant will not be subject to any potential administrative penalties that may be imposed on the landlords but our right to use these staff dormitories in the PRC as a tenant is subject to uncertainty and we may be compelled to leave and relocate our staff dormitories in the PRC as a result of the potential lack of title of the landlords. During the Track Record Period and up to the Latest Practicable Date, our Group had not received any other orders, demands and punishment from relevant government authorities in relation to the tenancies of our staff dormitories in the PRC. Our Directors are also of the view that the above staff dormitories in the PRC can be easily replaceable and therefore the risk of affecting our Group's business is remote and no contingency plans are considered necessary.

MARKET AND COMPETITION

Industry

Please refer to the section headed "Industry Overview" in this prospectus for details regarding the industry in which we operate, i.e. the watch manufacturing industry in China and watch distribution market in Hong Kong, Brazil, UAE, Turkey and EU.

Key business drivers

The key business drivers for the global watch market include (i) rising demand for high quality-to-price watches; (ii) rapidly changing consumer taste and requirement; and (iii) rising demand from e-commerce clients while the key business drivers for watch manufacturing market in China include (i) innovative technologies in upgrading design and production capacities, (ii) expediting of industrial transformation and (iii) surging demand for watches. Please see "Industry Overview" in this prospectus for further details regarding the key drivers of the industry we operate.

Competitive landscape

The watch manufacturing industry in China is highly fragmented. There are over 1,000 watch manufacturers including OEM and ODM players as well as watch manufacturers with their own brands and other subcontractors in China, with strong presence of companies from Hong Kong, Taiwan and the US. The major factors of competition include (i) price; (ii) craftsmanship and quality; (iii) design capability; and (iv) manufacturing lead time. Please see the section headed "Industry Overview" in this prospectus for further details regarding the competitive landscape of the watch manufacturing industry in China.

LITIGATIONS AND COMPLIANCE

Legal proceedings

As at the Latest Practicable Date, no member of our Group was engaged in any litigation, claim or arbitration of material importance, and no litigation, claim or arbitration of material importance is known to our Directors to be pending or threatened against any member of our Group.

Legal compliance

Our Directors confirm that 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.

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 liabilities and penalties which may arise as a result of any work injuries (if any), outstanding litigations (including criminal litigations) (if any), claims, and non-compliances of our Group on or before the date on which the Share Offer becomes unconditional. Further details of the Deed of Indemnity are set out in the paragraphs headed “E. Other information – 1. Tax and other indemnities” in Appendix V to this prospectus.

RISK MANAGEMENT AND INTERNAL CONTROLS

We endeavour to uphold the integrity of our business by maintaining an internal control system into our organisational structure. In preparation for the Listing and to further improve our internal control system, in June 2017, we engaged an internal control adviser, which is the risk advisory department of our Reporting Accountants (the “**IC Adviser**”), to perform an internal control review to assist the management and the Sole Sponsor in evaluating the adequacy and effectiveness of our Group’s internal control system over the major business areas in terms of financial, operation, compliance and risk management aspects with reference to the Internal Control Framework released in 2013 by the Committee of Sponsoring Organisation of the Tradeway Commission.

In July 2017, the IC Adviser completed the first review of our internal control system on, among others, our control environment, risk management, information and communication, monitoring of controls, operation level controls such as revenue management process, cost of sales management process, expenditure management process, human resources and payroll management, cash and treasury management, fixed assets management, taxation management, information technology, financial reporting and disclosure controls and compliance procedures with Appendix 15 Corporate Governance Code of the GEM Listing Rules.

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We have implemented the relevant internal control measures based on the recommendation of the IC Adviser. In February 2018, IC Adviser performed a follow up review on our internal control system and confirmed such modified and new internal control procedures are satisfactorily implemented upon the conduct of follow-up review.

In order to further strengthen our internal control system, our Group has also adopted or will adopt the following key measures:

- Our Directors attended training sessions conducted by our legal advisers as to Hong Kong law on the on-going obligations and duties of a director of a company whose shares are listed on the Stock Exchange.
- We have engaged TC Capital as our compliance adviser and will, upon Listing, engage a legal adviser as to Hong Kong laws, which will advise and assist our Board on compliance matters in relation to the GEM Listing Rules and/or other relevant laws and regulations applicable to our Company.
- We will establish an audit committee which comprises all independent non-executive Directors. The audit committee has adopted its terms of reference which sets out clearly its duties and obligations to, among other things, overseeing the internal control procedures and accounting and financial reporting matter of our Group, and ensuring compliance with the relevant laws and regulations. For the biographical details of the independent non-executive Directors, please refer to the section headed “Directors, senior management and staff” in this prospectus.
- When considered necessary and appropriate, we will seek professional advice and assistance from independent internal control consultants, external legal advisers and/or other appropriate independent professional advisers with respect to matters related to our internal controls and legal compliance.

View of our Directors and the Sole Sponsor

Our Directors confirm, and the Sole Sponsor concurs, that the internal control measures implemented by our Group are sufficient and could effectively ensure a proper internal control system of our Group.

LICENSE AND PERMITS

As advised by the Legal Counsel, other than the typical general licenses, permits and approval required to be for carrying on business in Hong Kong, such as the business registration under the Business Registration Ordinance (Chapter 310 of the Laws of Hong Kong), there are no licenses, permits or approvals required to be obtained specifically for our Group to carry on our business in Hong Kong.

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As advised by our PRC Legal Adviser, Shenzhen 3 Wells has obtained all requisite permits, licenses and approvals from relevant regulatory authorities for our operations in the PRC and our Directors confirm that Shenzhen 3 Wells has not violated the PRC laws nor operated beyond its business scope set out in its business license.

AWARDS AND CERTIFICATIONS

In recognition of our quality and management, we have been granted a number of awards and certifications. The following table sets forth the major awards/certifications received by us:

Year of grant	Award/Certification	Issuing authority/institution
1998	The Hong Kong Q-Mark	The Hong Kong Q-Mark Council
1998	Certificate of Merit in Export Marketing	TDC
2016	Business Excellence Awards	The Professional Validation Centre of Hong Kong Business Sector Limited

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

OUR CONTROLLING SHAREHOLDERS

So far as our Directors are aware, immediately following completion of the Capitalisation Issue and the Share Offer (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 following person(s) will individually and/or collectively be entitled to exercise or control the exercise of 30% or more of the voting power at general meetings of our Company:

Name	Number of Shares immediately following completion of the Capitalisation Issue and the Share Offer	Shareholding percentage in our Company immediately following completion of the Capitalisation Issue and the Share Offer
Million Easy ^(Note)	750,000,000	75%
Mr. Cheuk ^(Note)	750,000,000	75%
Mrs. Cheuk ^(Note)	750,000,000	75%

Note: Million Easy is owned by Mr. Cheuk and Mrs. Cheuk in equal shares.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Our Controlling Shareholders comprise of Mr. Cheuk, Mrs. Cheuk and Million Easy. Mr. Cheuk and Mrs. Cheuk are spouse of each other, while Million Easy is owned by them in equal shares. Million Easy is an investment holding company and holds 75% of the number of issued Share immediately following completion of the Capitalisation Issue and the Share Offer (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). As such, Mr. Cheuk, Mrs. Cheuk and Million Easy are the Controlling Shareholders for the purpose of the GEM Listing Rules.

Our Directors do not expect that there will be any significant transactions between our Group and our Controlling Shareholders immediately following the Listing, save and except the continuing connected transactions between our Group and Controlling Shareholders and/or his/her/its associates which are set out in the section headed “Connected Transactions” in this prospectus.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Having taken into consideration the following factors, our Directors are of the view that we are capable of carrying on our business independently from, and do not place undue reliance on our Controlling Shareholders and his/her/its respective close associates after the Listing:

Management independence

Board

Our Board consists of six Directors, among which three are independent non-executive Directors.

Each of our Directors is aware of his/her fiduciary duties as a Director which require, among other things, that he/she acts for the benefit and in the best interests of our Company and not to allow any conflict between the interests of our Company and his/her personal interests. In the event that a potential conflict of interests arises out of any transaction to be entered into between us and our Directors or their respective close associates, the interested Director(s) is/are to abstain from voting at the relevant Board meetings in respect of such transactions and not to be counted in the quorum.

Committees

We have established an audit committee, a remuneration committee and a nomination committee. Each committee consists of a majority of independent non-executive Directors.

The audit committee is responsible for reviewing and supervising our financial reporting process and internal control system whereas the remuneration committee's role is to ensure that our Directors are properly remunerated without being influenced by our Controlling Shareholders. The nomination committee is mainly responsible for making recommendations to our Board on appointment of Directors and succession planning for our Directors.

Our Directors are of the view that we are capable of managing our business independently of our Controlling Shareholders after the Listing.

Operational independence

Our operations are independent from and not connected with our Controlling Shareholders.

Our Group does not rely on our Controlling Shareholders for our operating licences, and has sufficient capital, equipment and employees we require to operate the business independently from our Controlling Shareholders. Our Board is responsible for determining the strategic development and management of our Group. Reporting to our Board is a management team employed by us who is responsible for all essential operational

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functions, including business development, sales and marketing and sourcing and who makes operational decisions within the authorisation and parameters set by our Board only. Our Company has also established a set of internal controls to facilitate the effective operation of our business.

Financial independence

Our Company will be financially independent from our Controlling Shareholders upon the Listing. All outstanding loans and non-trade payables owed to and from our Controlling Shareholders and his/her/its respective close associates, if any, will be settled before the Listing. For further detail, please refer to the section headed “Financial Information – Description of Certain Items of Statements of Financial Position – Amounts due from/(to) related parties” in this prospectus.

The banking facilities granted to our Group with personal guarantees will be released and replaced by corporate guarantees to be issued by our Company before Listing. Our Directors are of the view that our Group will be able to obtain further financing such as bank loans, if necessary, upon market terms and conditions without relying on financial assistance from our Controlling Shareholders and his/her/its respective close associates after the Listing.

UNDERTAKINGS

Our Controlling Shareholders have jointly and severally given certain undertakings in respect of our Shares (including those as set out in Rules 13.16A(1) and 13.19 of the GEM Listing Rules) to our Company, the Joint Bookrunners, the Joint Lead Managers and the Public Offer Underwriters, details of which are set out in the section headed “Underwriting – Undertakings” in this prospectus.

DISCLOSURE PURSUANT TO RULE 11.04 OF THE GEM LISTING RULES

None of our Directors, Controlling Shareholders, Substantial Shareholders and his/her/its respective close associates engages in the business of a watch manufacturer in the PRC principally engaging in design and development, manufacturing and distribution of watch products on an ODM basis or any interest that competes or may compete with the business of our Group which shall be disclosed in this prospectus pursuant to Rule 11.04 of the GEM Listing Rules.

NON-COMPETITION UNDERTAKING AND CORPORATE GOVERNANCE MEASURES TO MANAGE CONFLICTS OF INTERESTS

Undertakings

In order to maintain a clear delineation of the businesses between us and our Controlling Shareholders, our Controlling Shareholders, (together the “**Covenantors**”) have entered into the Deed of Non-competition in favour of our Company (for itself and as trustee for each of our subsidiaries from time to time).

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Each of the Covenantors has undertaken to our Company that each of the Covenantors will not and will procure that neither the Covenantors nor his/her/its close associates (other than members of our Group) will on its own account or with each other or in conjunction with or on behalf of any person, firm or company:

- (i) carry on or be engaged in, concerned with or interested in, directly or indirectly, whether as a shareholder (other than being a director or a shareholder of members of our Group or their associated companies), director, employee, partner, agent or otherwise any business that compete or may compete, directly or indirectly or through nominee, joint venture, alliance, cooperation, partnership or otherwise with the business of our Group from time to time (currently being design, development, manufacturing and/or distribution of watch products) (the “**Restricted Activity**”) in territories in which any member of our Group carries on or is engaged or invests in the Restricted Activity from time to time (the “**Restricted Territories**”), nor provide support in any form to persons other than our Group to engage in business that constitute or may constitute direct or indirect competition with the businesses that our Group is currently and from time to time carrying on in the Restricted Territories unless the prior written consent of our Company has been obtained (based on an affirmative vote of a majority of the independent non-executive Directors, who do not have, and are not deemed to have, a material interest in the relevant matter);
- (ii) solicit or procure any of the suppliers and/or the customers of our Group from time to time to terminate their business relationships or otherwise reduce the amount of business with our Group;
- (iii) solicit or procure any of the directors, senior management or other employees of our Group from time to time to resign or otherwise cease providing services to our Group;
- (iv) take any action that may be harmful to the reputation of any member of our Group or which may lead any person to reduce their level of business with any member of our Group; and
- (v) make use of any confidential information pertaining to the business of our Group which may have come to his/her/its knowledge in his/her/its capacity as a shareholder of our Company or director of any member of our Group for the purpose of competing with the business of our Group.

Each of the Covenantors has undertaken to our Company that in the event the Covenantors or any of their close associates (other than members of our Group) are given any business opportunity that is or may involve direct or indirect competition with the Restricted Activity in any of the Restricted Territories (the “**Business Opportunity**”), the Covenantors shall, and shall procure their close associates (other than members of our Group) to, refer the Business Opportunity to our Group and to assist our Group in obtaining such Business Opportunity on terms no less favourable than those offered to the relevant Covenantors or their close associates (the “**First Right of Refusal**”), and that none of the Covenantors and their respective close

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associates will pursue the Restricted Activity and/or the Business Opportunity until our Company decides not to pursue the Restricted Business and/or the Business Opportunity and provides such decision in writing to the Covenantors. Any decision of our Company in respect of the First Right of Refusal will have to be approved by the independent non-executive Directors taking into consideration, inter alia, our Group's prevailing business and financial resources.

Both undertakings above do not apply to the following situations:

- (i) the holding by the Covenantors and their close associates of interests in shares or other securities that represents (or upon conversion will represent) less than 10% voting rights in any company the shares of which are listed on a recognised stock exchange and which conducts or is engaged in any Restricted Activity; or
- (ii) the holding by the Covenantors and their close associates of interests in shares or other securities that represents (or upon conversion will represent) less than 5% voting rights in any non-listed company which conducts or is engaged in any Restricted Activity,

provided that the Covenantors and/or their close associates are not entitled to appoint a majority of the directors or management of that company.

The above undertakings are conditional upon our Shares being listed and quoted on GEM; and the Covenantors' obligations under the Deed of Non-competition will remain in effect until:

- (i) the date upon which our Shares cease to be listed on the Stock Exchange; or
- (ii) the date upon which the Covenantors and their close associates, individually or collectively, cease to own 30% or more of the then issued share capital of our Company directly or indirectly, or otherwise cease to be regarded as controlling shareholder(s) under the GEM Listing Rules,

whichever occurs first.

Pursuant to the Deed of Non-Competition, each of our Covenantors has severally undertaken:

- (i) to provide our Company (including our independent non-executive Directors) with all information necessary for their annual review and the enforcement of all undertakings, representations and warranties contained in the Deed of Non-Competition;
- (ii) to make an annual declaration of compliance with such undertakings, representations and warranties for disclosure in our Company's annual reports; and
- (iii) to abstain from voting at any general meeting of our Company if there is any actual or potential conflict of interests.

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The declaration and disclosure regarding compliance with and enforcement of the Deed of Non-Competition shall be consistent with the principles of making voluntary disclosures in the Corporate Governance Report of our Company to be issued in accordance with Appendix 15 to the GEM Listing Rules.

Corporate governance measures to manage conflict of interests

We will adopt the following corporate governance measures to manage any potential conflicts of interest arising from any future potential competing business and to safeguard the interests of our Shareholders:

- (i) our independent non-executive Directors will review, at least on an annual basis, the compliance with and enforcement of the terms of the Deed of Non-Competition by our Covenantors;
- (ii) our Company will disclose decisions with basis on matters reviewed by the independent non-executive Directors relating to non-compliance and enforcement of the Deed of Non-Competition (including why business opportunities referred to it by our Controlling Shareholder(s) were not taken up) either through annual report, or by way of announcement and/or other documents issued or published by our Company as required under the GEM Listing Rules;
- (iii) our Controlling Shareholder(s) have undertaken to provide all information necessary to our Company for the annual review by our independent non-executive Directors and the enforcement of the Deed of Non-Competition;
- (iv) we will disclose in the corporate governance report of our annual report whether the terms of the Deed of Non-Competition have been complied with and enforced;
- (v) in addition to each Director being aware of his/her fiduciary duties as a Director, which require, among other things, that he/she acts for the benefit of our Company and the Shareholders as a whole and does not allow any conflict of interests between his/her duties as a Director and his/her personal interests, our Articles of Association require each Director to declare to our Board any potential conflict of interest with our Group at Board meetings. Our Articles of Association provide that a Director shall not vote (nor be counted in the quorum) on any resolution of our Board approving any contract or arrangement or other proposal in which he/she or any of his/her close associates is materially interested unless otherwise permitted by the Articles. Our Board (including our independent non-executive Directors) will monitor the potential conflict of interest of Directors and our Directors have to submit confirmations to the Board disclosing details of any interests in competing businesses in any interim or annual reports to be issued by our Company. If potential conflict of interest arises, the interested Director(s) will bring the matter to our independent non-executive Directors and shall abstain from voting on such proposed resolution;

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- (vi) our Company has engaged TC Capital as our compliance adviser who shall ensure that our Company is properly guided and advised as to compliance with the GEM Listing Rules and any other applicable laws and regulations; and
- (vii) our independent non-executive Directors may engage independent professional advisers in appropriate circumstances at our Company's costs.

Our Directors consider that the above corporate governance measures are sufficient to manage any potential conflict of interests between our Covenantors and our Group and to protect the interests of our Shareholders, in particular, our minority Shareholders.

CONNECTED TRANSACTIONS

Following the Listing, the following transactions between our Group and the relevant connected person(s) (as defined in the GEM Listing Rules) will continue, and will constitute continuing connected transactions under the GEM Listing Rules.

FULLY EXEMPT CONTINUING CONNECTED TRANSACTIONS

Pursuant to Chapter 20 of the GEM Listing Rules, the continuing connected transactions of our Group as set out below are exempt from compliance with the requirements of reporting, annual review, announcement and approval by the independent Shareholders under Chapter 20 of the GEM Listing Rules.

Office Tenancy Agreement

Smart Hill Enterprises Limited (“**Smart Hill**”) (as tenant) entered into a tenancy agreement (the “**Office Tenancy Agreement**”) dated 1 July 2017 with Cheer China (as landlord), pursuant to which Cheer China agreed to lease Unit 6 on 15th Floor, Tower One, Ever Gain Plaza, No. 88 Container Port Road, Kwai Chung, New Territories, Hong Kong to Smart Hill for the purpose as office for a term of two years commencing on 1 July 2017 and ending on 30 June 2019 (both days inclusive) at the monthly rent of HK\$15,000 (inclusive of property tax, management fee, government rent and rates but exclusive of water, gas and electricity charges), which was agreed after arm’s length negotiations between the parties with regard to the market rent of similar properties in similar locations as the property leased under the Office Tenancy Agreement, and the terms of the Office Tenancy Agreement were no less favourable to Cheer China than terms available from Independent Third Parties.

The rent paid by Smart Hill for the two years ended 31 December 2017 amounted to approximately HK\$0.2 million and HK\$0.2 million, respectively. It is expected that the annual rent payable by Smart Hill under the Office Tenancy Agreement for the two years ending 31 December 2019 will amount to approximately HK\$0.2 million and HK\$0.2 million respectively.

By using the above expected annual rent as the numerators for the calculation of percentage ratios, all the relevant percentage ratios calculated for the relevant transactions under the Office Tenancy Agreement pursuant to Chapter 20 of the GEM Listing Rules will be less than 5% and the annual consideration will be less than HK\$3,000,000.

Smart Hill is a company incorporated in Hong Kong which is wholly-owned by Ms. Au Sin Mei Stella, the sister of Mrs. Cheuk (our executive Director and Controlling Shareholder). As such, Smart Hill is an associate of Mrs. Cheuk and hence a connected person of our Company for the purposes of the GEM Listing Rules and the transactions under the Office Tenancy Agreement will constitute exempt continuing connected transactions for our Group after the Listing.

CONNECTED TRANSACTIONS

Director's Quarter Tenancy Agreement

3 Wells (as tenant) entered into a tenancy agreement (the “**Director's Quarter Tenancy Agreement**”) dated 1 July 2017 with Mr. Cheuk (as landlord), pursuant to which Mr. Cheuk agreed to lease House No. 15 of Mouton Avenue, The Vineyard, No. 23 Ngau Tam Mei Road, Yuen Long, New Territories, Hong Kong to 3 Wells for the purpose as Director's quarter for a term of two years commencing on 1 July 2017 and ending on 30 June 2019 (both days inclusive) at the monthly rent of HK\$60,000 (inclusive of property tax, government rent and rates but exclusive of management fee, water, gas and electricity charges), which was agreed after arm's length negotiations between the parties with regard to the market rent of similar properties in similar locations as the property leased under the Director's Quarter Tenancy Agreement, and the terms of the Director's Quarter Tenancy Agreement were no less favourable to 3 Wells than terms available from Independent Third Parties.

The rent paid by 3 Wells under the Director's Quarter Tenancy Agreement for each of the two years ending 31 December 2017 amount to approximately Nil and HK\$0.4 million respectively. It is expected that the annual rent payable by 3 Wells under the Director's Quarter Tenancy Agreement for each of the two years ending 31 December 2019 amounts to approximately HK\$0.7 million and HK\$0.7 million respectively.

By using the above expected annual rent as the numerators for the calculation of percentage ratios, all the relevant percentage ratios calculated for the relevant transactions under the Director's Quarter Tenancy Agreement pursuant to Chapter 20 of the GEM Listing Rules will be less than 5% and the annual consideration will be less than HK\$3,000,000.

Mr. Cheuk is our executive Director and Controlling Shareholder. As such, Mr. Cheuk is a connected person of our Company for the purposes of the GEM Listing Rules and the transactions under the Director's Quarter Tenancy Agreement will constitute exempt continuing connected transactions for our Group after the Listing.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

BOARD OF DIRECTORS

Our Board consists of six Directors, including three executive Directors and three independent non-executive Directors. The table below sets forth the information regarding our Board:

Name	Age	Position	Responsibilities in our Group	Date of joining our Group	Date of appointment as Director	Relationship with other Directors, members of our senior management and Substantial Shareholders
Mr. CHEUK Sin Cheong Clement (卓善章)	59	Chairman of our Board, chief executive officer and executive Director	Formulating our Group's overall strategic planning, overseeing sales and marketing and product development, and overall management of our Group's business	September 1986	12 June 2017	Spouse of Mrs. Cheuk, father of Ms. Heide Cheuk and brother-in-law of Ms. Au Hung Wai Didy
Ms. AU Corona Ching Mei M.H. (歐靜美)	57	Executive Director	Overseeing our Group's administrative, human resources and financial management, and assisting in the management of our Group's business	May 1989	12 June 2017	Spouse of Mr. Cheuk, mother of Ms. Heide Cheuk and sister of Ms. Au Hung Wai Didy
Ms. Cheuk Heide Oil-gei (卓凱璣)	29	Executive Director and in-house legal counsel	Overseeing sales and marketing and business development, management of our Group's business, and advising on legal matters	January 2013	12 June 2017	Daughter of Mr. Cheuk and Mrs. Cheuk and niece of Ms. Au Hung Wai Didy

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Name	Age	Position	Responsibilities in our Group	Date of joining our Group	Date of appointment as Director	Relationship with other Directors, members of our senior management and Substantial Shareholders
Mr. YU Sau Ning Homer M.H. (余壽寧)	65	Independent non-executive Director	Supervising and providing independent judgment to our Board, remuneration committee, audit committee and nomination committee	June 2018	20 June 2018	N/A
Mr. ZHAO Zhipeng (趙志鵬)	34	Independent non-executive Director	Supervising and providing independent judgment to our Board, remuneration committee and audit committee	June 2018	20 June 2018	N/A
Ms. YEE Wai Fong Wendy (余惠芳)	52	Independent non-executive Director	Supervising and providing independent judgment to our Board, audit committee and nomination committee	June 2018	20 June 2018	N/A

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Executive Directors

Mr. CHEUK Sin Cheong Clement (卓善章), aged 59, is the chairman of our Board, our founder, our executive Director, one of our Controlling Shareholders and our chief executive officer. He is also the chairperson of our nomination committee. He is also a director of each of the operating subsidiaries of our Group. Mr. Cheuk is primarily responsible for formulating our Group's overall strategic planning, overseeing sales and marketing, product development, and overall management of our Group's business.

Mr. Cheuk has more than 30 years of experience in the watch industry, particularly in product design development, sales and marketing. He was the vice chairman of the 17th session of and chairman of the 18th session of The Federation of Hong Kong Watch Trades & Industries Limited and an advisor of The Federation of Hong Kong Watch Trades & Industries Limited since 2000. He was also a member of Watches and Clocks Advisory Committee of the Hong Kong Trade Development Council from 1996 to 2007.

Mr. Cheuk obtained a master degree of business administration (executive) from the City University of Hong Kong in November 2001. He was admitted as an honorary fellow of The Professional Validation Centre of Hong Kong Business Sector in June 2015. He was also awarded the Young Industrialist Awards for the year 1998/1999 by the Hong Kong Young Industrialists Council and an awardee member of the Hong Kong Young Industrialists Council in November 1998. Mr. Cheuk was also a director of the 32nd board of directors of Yan Oi Tong.

He is the spouse of Mrs. Cheuk, father of Ms. Heide Cheuk and brother-in-law of Ms. Au Hung Wai Didy.

Mr. Cheuk was a director of the following companies, which were dissolved, with details as follows:

Name of company	Place of Incorporation	Date of dissolution	Nature of Proceeding	Nature of business before dissolution
3 Wells Holdings (Hong Kong) Limited	Hong Kong	19 September 2008	Deregistration (Note)	Investment holding
Ever Good Watch Company Limited (永利鐘錶有限)	Hong Kong	22 November 2002	Striking off	Manufacturing of watch parts
Land Good Development Limited (良冠發展有限公司)	Hong Kong	17 August 2012	Deregistration (Note)	Property investment
Regent City Holdings Limited (富港集團有限公司)	Hong Kong	2 April 2004	Deregistration (Note)	Retail of watches

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Name of company	Place of Incorporation	Date of dissolution	Nature of Proceeding	Nature of business before dissolution
Sun Choice Industrial Limited (信彩實業有限公司)	Hong Kong	13 June 2008	Deregistration <i>(Note)</i>	Property investment
3 Wells Group Holdings Limited (三井集團控股有限公司)	Cayman Islands	30 June 2014	Strike off	Investment holding

Note: Under section 291AA of the Predecessor Companies Ordinance, an application for deregistration can only be made if (a) all members of such company agree to such deregistration; (b) such company has never commenced business or operation, or has ceased to carry on business or ceased operation for more than three months immediately before the application; and (c) such company has no outstanding liabilities.

Mr. Cheuk confirmed that the above-mentioned companies had remained solvent and had no outstanding liabilities on or before its dissolution, and have not been involved in any material non-compliant incidents, claims, litigations or legal proceedings and there were no claims against herself in relation to the above-mentioned companies.

Directorship in Shenzhen Garona

Background and non-compliance of Shenzhen Garona

Shenzhen Garona Watch Company Limited* (深圳歌朗娜錶業有限公司) (“**Shenzhen Garona**”) was established in the PRC on 28 March 1996 and has become a wholly foreign-owned enterprise (Hong Kong investment) (獨資經營(港資)) since March 2004. It was then wholly owned by 3 Wells. Mr. Cheuk was the legal representative and the chairman of board of Shenzhen Garona. Due to its failure to carry out annual inspection (年檢) in 2005, the business licence (企業法人營業執照) of Shenzhen Garona was revoked by the relevant PRC authority on 30 November 2007 as administrative penalty.

As confirmed by Mr. Cheuk, Shenzhen Garona had no longer carried out active business immediately before 2005. Mr. Cheuk also confirmed that the failure of Shenzhen Garona in carrying out the annual inspection within the prescribed time limit since 2005 was due to the inadvertent oversight of the then responsible officer(s), and the lack of timely and professional advice on this aspect of the PRC laws.

As advised by our PRC Legal Advisers, under the PRC Company Law (中國公司法) and Registration Management Regulations on Legal Representative of Enterprise Entity (企業法人法定代表人登記管理規定), for any person (i) being the legal representative of a PRC company of which the business licence has been revoked due to violation of laws or regulations, and (ii) bearing personal responsibility for such violation of laws or regulations, he/she is prohibited

* For identification purpose only

DIRECTORS, SENIOR MANAGEMENT AND STAFF

from acting as legal representative, director, supervisor or member of senior management in other PRC companies within three years upon the revocation of business licence. Therefore Mr. Cheuk was prohibited from acting as legal representative, director, supervisor or member of senior management in other PRC companies for the period from 30 November 2007 to 29 November 2010. Due to the lack of timely professional advice as to PRC laws, Mr. Cheuk was not aware of such prohibition period and had been a director and legal representative of Shenzhen 3 Wells within the aforesaid prohibition period (i.e. from 30 November 2007 to 23 December 2008).

As advised by our PRC Legal Advisers, under the Registration Management Regulations on Legal Representative of Enterprise Entity (企業法人法定代表人登記管理規定), within the aforesaid prohibition period (i.e. from 30 November 2007 to 29 November 2010), if Shenzhen 3 Wells failed to replace Mr. Cheuk as its legal representative within a prescribed period after receiving a notice from the relevant PRC legal authority, then it might be subject to a fine not more than RMB100,000 and, if the relevant PRC authority considered the case to be serious, might have its business registration (企業登記) and business license (企業法人營業執照) revoked.

As advised by our PRC Legal Advisers, save as mentioned above, there is no other penalty imposable on Mr. Cheuk or Shenzhen 3 Wells in relation to this matter under the PRC laws.

As advised by our PRC Legal Advisers, the aforesaid prohibition on Mr. Cheuk to act as the legal representative, director or member of senior management of the PRC companies was no longer in force as at the Latest Practicable Date. Further, although Mr. Cheuk had been a director and legal representative of Shenzhen 3 Wells within the aforesaid prohibition period (i.e. from 30 November 2007 to 23 December 2008), Mr. Cheuk or Shenzhen 3 Wells had not been imposed penalties for the aforesaid issue. According to the Administrative Penalty Law of the PRC (中華人民共和國行政處罰法), administrative penalty shall no longer be imposed if an illegal act is not discovered within two years, thus such non-compliance had already been time-barred to impose administrative penalty.

As advised by our PRC Legal Advisers, there is no evidence suggesting that Mr. Cheuk is not capable of acting as a director in Shenzhen 3 Wells.

Internal control measures to prevent the occurrence of similar non-compliance incidents in our Group

We have implemented the following internal control measures to prevent the occurrence of non-compliance incident as described in the paragraphs above in our Group, and to ensure that our Group will not be susceptible to undue influence of any single Director:

- our accounting manager is responsible for setting up an alarm system in respect of the prescribed time limit for the annual inspection of all our PRC companies as required by the relevant PRC laws and regulations;
- we have also assigned our chief financial officer and company secretary, Mr. Xie Xing, who is a certified public accountant of the Hong Kong Institute of Certified Public Accountants (for more of his information, please refer to the paragraph headed

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“Directors, Senior Management and Staff – Company Secretary”) to carry out follow-up review on a monthly basis to ensure that the annual inspection of all our PRC companies are completed properly and in a timely manner; and

- if necessary, we will seek legal advice from external PRC legal advisers to ensure on-going compliance.

Views of our Directors

In respect of the aforesaid non-compliance incident of Mr. Cheuk, it is noted that:

- the aforesaid non-compliance incident of Mr. Cheuk is an isolated incident, there is no other PRC company (of which Mr. Cheuk was a director, legal representative or supervisor) the business licence of which had been revoked;
- no legal liability was imposed on Mr. Cheuk in relation to the aforesaid non-compliance incident;
- the prohibition against Mr. Cheuk to act as the legal representative, director or member of senior management of other PRC companies was no longer in force since 29 November 2010;
- there was no indication of dishonesty or willful act committed on the part of Mr. Cheuk in relation to the aforesaid non-compliance incident; and
- the aforesaid internal control measures have been implemented to avoid occurrence of any similar incident in our Group.

Based on the above, our Directors consider that the abovementioned non-compliance incidents would not affect the suitability of Mr. Cheuk to be our executive Director under Rules 5.01 and 5.02 of the GEM Listing Rules or the suitability of listing of our Company under Rule 11.06 of the GEM Listing Rules.

Ms. AU Corona Ching Mei M.H. (歐靜美), aged 57, is our executive Director, one of our Controlling Shareholders and the legal representative of Shenzhen 3 Wells. She is also a director of each of the operating subsidiaries of our Group. She is primarily responsible for overseeing our Group’s administrative, human resources and financial management, and assisting in the management of our Group’s business.

Mrs. Cheuk has more than 28 years of experience in the watch industry. Prior to joining our Group, she worked in the finance department in China Resources Textiles Company Limited from July 1978 to January 1985 and worked as a deputy financial manager in China Resources Silk Co., Ltd from January 1985 to November 1987.

Mrs. Cheuk was awarded the China’s Hundred Outstanding Women Entrepreneurs* (中國百名傑出女企業家) by the China Association of Woman Entrepreneurs* (中國女企業家協會) in October 2006 and was awarded the Medal of Honour (MH) by the Government of the HKSAR in July 2010. She was a director, the vice chairlady and the chairlady of Yan Oi Tong from 2004 to

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2006, 2006 to 2009 and 2009 to 2010 respectively. She was a committee member of the tenth Hubei Municipal Committee of the Chinese People's Political Consultative Conference* (中國人民政治協商會議湖北省第十屆委員會委員). She is currently a permanent honorary committee member of The Chinese General Chamber of Commerce, Hong Kong and a director of Po Leung Kuk.

Mrs. Cheuk obtained a diploma of graduate gemologist from the Gemological Institute of America in March 2003. Mrs. Cheuk is the spouse of Mr. Cheuk, mother of Ms. Heide Cheuk and sister of Ms. Au Hung Wai, Didy.

Mrs. Cheuk was a director of the following companies, which were dissolved, with details as follows:

Name of company	Place of Incorporation	Date of dissolution	Nature of Proceeding	Nature of business before dissolution
3 Wells Holdings (Hong Kong) Limited	Hong Kong	19 September 2008	Deregistration <i>(Note)</i>	Investment holding
3 Wells Group Holdings Limited	Cayman Islands	30 June 2014	Strike off	Investment holding
Grand Time Industrial Limited (耀泰實業有限公司)	Hong Kong	17 August 2012	Deregistration <i>(Note)</i>	Manufacturing and trading of electronic watches
Grand United Precision Products Company Limited (聯大精密製品有限公司)	Hong Kong	31 December 2010	Deregistration <i>(Note)</i>	Manufacturing of watch parts
Land Good Development Limited (良冠發展有限公司)	Hong Kong	17 August 2012	Deregistration <i>(Note)</i>	Property investment
Sun Choice Industrial Limited (信彩實業有限公司)	Hong Kong	13 June 2008	Deregistration <i>(Note)</i>	Property investment
3 Union Watch Company Limited (三聯錶業有限公司)	Hong Kong	18 January 2002	Striking Off	Manufacturing of watch cases
Champion Fame Development Limited (貫譽發展有限公司)	Hong Kong	11 October 2002	Striking Off	Property investment

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Name of company	Place of Incorporation	Date of dissolution	Nature of Proceeding	Nature of business before dissolution
Ever Good Watch Company Limited (永利鐘錶有限公司)	Hong Kong	22 November 2002	Striking Off	Manufacturing of watch parts
Regent City Holdings Limited (富港集團有限公司)	Hong Kong	2 April 2004	Deregistration <i>(Note)</i>	Retail of watches
Kunming Zhirui Trading Co., Ltd. (昆明智銳貿易有限公司)	PRC	3 August 2009	Deregistered	Watches and clocks, accessories, clothing, apparel, jewelry, leather goods, glasses gifts, cosmetics retail and wholesale

Note: Under section 291AA of the Predecessor Companies Ordinance, an application for deregistration can only be made if (a) all members of such company agree to such deregistration; (b) such company has never commenced business or operation, or has ceased to carry on business or ceased operation for more than three months immediately before the application; and (c) such company has no outstanding liabilities.

Mrs. Cheuk was the vice chairlady of the following company, which was revoked, with details as follows:

Name of company	Place of Incorporation	Date of revocation	Status	Nature of business before dissolution
Shenzhen Garona Watch Co., Ltd. (深圳歌朗娜錶業有限公司)	PRC	30 November 2007	Revoked	Manufacturing and operating of stem-winder, artificial ornament, quartz watch and related accessories (not including the galvanizing procedure)

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Mrs. Cheuk confirmed that the above-mentioned companies had remained solvent and had no outstanding liabilities on or before its dissolution, and have not been involved in any material non-compliant incidents, claims, litigations or legal proceedings and there were no claims against herself in relation to the above-mentioned companies.

Ms. CHEUK Heide Oil-gei (卓凱璣), aged 29, is our executive Director and in-house legal counsel. She is currently responsible for overseeing the sales and marketing and business development, management of our Group's business, and advising on legal matters.

Ms. Heide Cheuk has five years of experience in the watch industry. Prior to joining our Group, she worked as a legal intern and paralegal at Vidler & Co. Solicitors from August 2010 to May 2011 and as a solar campaign associate at Environment California from August 2012 to October 2012.

Ms. Heide Cheuk obtained a degree of bachelor of Laws from the University of Durham in July 2010 and a degree of master of laws from the Duke University in May 2012. She was admitted to practice as an attorney and counselor at law in all courts of the State of New York in June 2017.

Ms. Heide Cheuk is the daughter of Mr. Cheuk and Mrs. Cheuk and the niece of Ms. Au Hung Wai Didy.

Independent non-executive Directors

Mr. YU Sau Ning Homer M.H. (余壽寧), aged 65, is our independent non-executive Director, the chairperson of our audit committee, and a member of our remuneration committee and nomination committee. Mr. Yu is responsible for supervising and providing independent judgment to our Board, remuneration committee, audit committee and nomination committee.

Mr. Yu has 40 years of experience in the wholesale and retail markets of wine and spirit, skincare and household products. He has been the chief executive officer of Cheong Hing Store Ltd., Cheong Hing (1917) Limited, Youthful Technology International Ltd. and Youthful Wonder Limited since 1981, 1981, 1989 and 2014 respectively. In June 2016, he founded and became the director of One Belt One Road Eurasia Centre (HK) Limited.

Mr. Yu was awarded the Chevalier de l'ordre national du Merite by the Government of France in June 1996 and was awarded the medal of honour by the Government of the HKSAR in 1999. He was appointed as a member of the eleventh and twelfth National People's Congress HKSAR Representative Elective Committee and was appointed as a committee member of the first Chinese People's Political Consultative Conference of Huangpu, Guangzhou in August 2015. He was also appointed as a member by the Consumer Council for the period between 2003 and 2008. In December 2008, he received the honorary decoration award from the Chamber of Beauty Culture & Cosmetics of All-China Federation of Industry & Commerce. He is currently a member of the Customer Consultative Group of CLP Power Hong Kong Limited, and an elected member of the retailer category of Quality Tourism Services Association Governing Council

DIRECTORS, SENIOR MANAGEMENT AND STAFF

(QTSA) and the chairman of the Better Business Environment Committee of QTSA. He has been the chairman of the seventh Professional's Committee of Kowloon Federation of Association since June 2015. He has been an honorary life president of the Cosmetic & Perfumery Association of Hong Kong Ltd. since 1996.

Mr. Yu obtained a degree of master of science from the National University of Ireland in April 2003. He was admitted as honorary senior fellow by the Professional Validation Centre of Hong Kong Business Sector (PVCBS) in November 2005, and was the president of the 6th session of the executive committee of PVCBS.

Mr. Yu was a director of the following company, which was dissolved, with details as follows:

Name of Company	Place of Incorporation	Date of dissolution/ ceased place of business	Nature of proceeding	Nature of business before dissolution
Tech Cheong Industrial Limited (德章實業有限公司)	Hong Kong	12 April 2002	Deregistration (Note)	No business operation

Note: Under section 291AA of the Predecessor Companies Ordinance, an application for deregistration can only be made if (a) all members of such company agree to such deregistration; (b) such company has never commenced business or operation, or has ceased to carry on business or ceased operation for more than three months immediately before the application; and (c) such company has no outstanding liabilities.

The above-mentioned companies had remained solvent and had no outstanding liabilities on or before its dissolution, and have not been involved in any material non-compliant incidents, claims, litigations or legal proceedings and there were no claims against himself in relation to the above-mentioned companies.

Mr. ZHAO Zhipeng (趙志鵬), aged 34, is our independent non-executive Director, the chairperson of our remuneration committee, and a member of our audit committee. Mr. Zhao is responsible for supervising and providing independent judgment to our Board, audit committee and remuneration committee.

Mr. Zhao has more than six years of experience in the legal industry. Prior to joining our Group, he worked as a trainee solicitor at Patrick Mak & Tse from July 2011 to December 2013 and as an assistant solicitor in the same firm from December 2013 to March 2016. He became a partner of the said firm since March 2016. He has been an independent non-executive director of Kin Pang Holdings Limited (stock code: 1722), a company listed on the Main Board of the Stock Exchange, since November 2017.

Mr. Zhao obtained a degree of bachelor of laws from The East China University of Political Science and Law in July 2006, a degree of master of laws from The Chinese University of Hong Kong in December 2007, a juris doctor degree from the City University of Hong Kong in October 2009 and a postgraduate certificate in laws from the City University of Hong Kong in July 2011. He was admitted to practice law as a solicitor in Hong Kong in December 2013.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Ms. YEE Wai Fong Wendy (余惠芳), aged 52, is our independent non-executive Director and a member of our audit committee and nomination committee. She is responsible for supervising and providing independent judgment to our Board, audit committee and nomination committee.

Ms. Yee has more than 25 years of experience in finance and accounting areas in the Asia Pacific. Prior to joining our Group, she was a senior auditor of Deloitte Touche Tohmatsu from July 1988 to April 1993. From July 1993 to November 2006 she has served a number of positions in the Motorola Asia Pacific Limited, a multinational telecommunications company listed in the United States, with her last position as a controller for Hong Kong, the Philippines and the business development team of its networks and enterprise business. From December 2006 to April 2010 she has served a number of positions in Ecolab Limited, a subsidiary of Ecolab Inc., a company listed in the United States, with her last position as Asia control director. From May 2010 to July 2012 she served as a vice president of finance in Active-Semi International, Inc. From July 2012 to June 2013, she worked as a senior director of finance and accounting, Asia, at Mikli Asia Limited. She then served as a director of finance from April 2014 to June 2017 at Targus Asia Pacific Limited.

Ms. Yee obtained a degree of bachelor of social sciences from the University of Hong Kong in November 1988 and a degree of bachelor of science from the University of London in August 2002. She further obtained a degree of master of business administration from the University of Dubuque in December 2002. She has been admitted as a member of the Institute of Chartered Accountants in England and Wales in February 2006, and as an associate of the Hong Kong Institute of Certified Public Accountants since April 1992.

Ms. Yee was a director of the following company, which was dissolved, with details as follows:

Name of company	Place of Incorporation	Date of dissolution	Nature of Proceeding	Nature of business before dissolution
Best Target Holdings Limited (達致集團有限公司)	Hong Kong	11 May 2007	Deregistration (Note)	Investment holding

Note: Under section 291AA of the Predecessor Companies Ordinance, an application for deregistration can only be made if (a) all members of such company agree to such deregistration; (b) such company has never commenced business or operation, or has ceased to carry on business or ceased operation for more than three months immediately before the application; and (c) such company has no outstanding liabilities.

Ms. Yee confirmed that the above-mentioned companies had remained solvent and had no outstanding liabilities on or before its dissolution, and have not been involved in any material non-compliant incidents, claims, litigations or legal proceedings and there were no claims against herself in relation to the above-mentioned companies.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Other disclosure pursuant to Rule 17.50(2) of the GEM Listing Rules

Save as disclosed above and elsewhere in this prospectus (if any), each of our Directors confirmed with respect to himself or herself that: (i) he or she is independent from and had no other relationships with any Directors, members of our senior management, Substantial Shareholders or Controlling Shareholders as at the Latest Practicable Date; (ii) apart from our Company, in the last three years leading up to and as at the Latest Practicable Date, he or she is not holding, nor had he or she held directorships in any other public company the securities of which are listed on any securities market in Hong Kong and/or overseas; (iii) he or she did not hold other positions in our Company or other members of our Group as at the Latest Practicable Date; (iv) he or she does not have any interests in our Shares within the meaning of Part XV of the SFO, save as disclosed in the paragraph headed “C. Further information about Substantial Shareholders, Directors and experts – 1. Disclosure of interests – (a) Interests and short positions of Directors and chief executive in Shares, underlying Shares and debentures of our Company and its associated corporations” in Appendix V to this prospectus; (v) he or she does not have any interests in any business which competes or may compete, directly or indirectly, with us, which is disclosable under the GEM Listing Rules, save as disclosed in the section headed “Relationship with our Controlling Shareholders” of this prospectus; and (vi) to the best of the knowledge, information and belief of our Directors having made all reasonable enquiries, there is no additional information relating to our Directors or senior management that is required to be disclosed pursuant to Rule 17.50(2) of the GEM Listing Rules and no other matters with respect to their appointments that need to be brought to the attention of our Shareholders as at the Latest Practicable Date.

SENIOR MANAGEMENT

The table below sets forth information regarding our senior management:

Name	Age	Position	Responsibilities in our Group	Date of joining our Group	Relationship with other Directors, members of our senior management and Substantial Shareholders
Mr. XIE Xing (謝星)	37	Chief financial officer and company secretary	Overseeing our financial reporting, financial planning, treasury, financial control and company secretarial matters	May 2017	N/A
Mr. YEUNG Siu Wai (楊少威)	36	Senior sales and marketing manager	Overseeing the sales and marketing of our Group	April 2008	N/A

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Name	Age	Position	Responsibilities in our Group	Date of joining our Group	Relationship with other Directors, members of our senior management and Substantial Shareholders
Mr. LAU Yue Man (劉禹文)	48	General manager	Overseeing daily operation of our PRC production plant, and resolving production and products issues	March 2014	N/A
Ms. AU Hung Wai Didy (歐紅慧)	51	Vice general manager	Overseeing research and development and procurement department	January 1997	Sister of Mrs. Cheuk, sister-in-law of Mr. Cheuk and aunt of Ms. Heide Cheuk
Mr. CHAN Ho Tsun (陳浩浚)	31	Quality & production manager	Overseeing production control and quality compliance	April 2015	N/A

Mr. XIE Xing (謝星), aged 37, is our chief financial officer and company secretary. He is responsible for overseeing our financial reporting, financial planning, treasury, financial control and company secretarial matters.

Mr. Xie has more than 11 years of experience in the accounting and financial field. Prior to joining our Group, he worked at KPMG from July 2006 to February 2008, with his last position as an accountant. Subsequently, he worked as a financial and planning manager at Garona (HK) Limited from February 2008 to November 2008, as an accountant at Mapletree Logistics Management (HK) Limited from May 2009 to June 2010, as a business and finance manager at Vantage Sourced limited from June 2010 to December 2012 and as a senior financial analyst at 3 Wells from December 2011 to January 2014. In July 2014, he co-founded and became a director of Makeup Gallery Limited. From July 2015 to April 2017, he worked as a financial analyst at Metito China Holdings Limited. He rejoined 3 Wells as the chief financial officer in May 2017.

He obtained a degree of bachelor of science with honour in applied physics from the Hong Kong Baptist University in December 2003 and a degree of master of philosophy in physics from The Hong Kong University of Science and Technology in November 2005. He has been a member of the Hong Kong Institute of Certified Public Accountants since May 2011.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Mr. Xie was a director of the following company, which was dissolved, with details as follows:

Name of company	Place of Incorporation	Date of dissolution	Nature of Proceeding	Nature of business before dissolution
Hong Kong Institute Of Certified Make-Up Artist Limited-The- (香港註冊化妝師公會有限公司)	Hong Kong	14 October 2016	Deregistration (Note)	No business operation

Note: Under section 750 of the Companies Ordinance, an application for deregistration must not be made unless at the time of the application (a) all members of such company agree to such deregistration; (b) such company has not commenced operation or business, or has not been in operation or carried on business during the three months immediately before the application; (c) such company has no outstanding liabilities; (d) such company is not a party to any legal proceedings; (e) such company's assets do not consist of any immovable property situate in Hong Kong; and (f) if such company is a holding company, none of its subsidiary's assets consist of any immovable property situate in Hong Kong.

Mr. Xie confirmed that the above-mentioned company had remained solvent and had no outstanding liabilities on or before its dissolution, and have not been involved in any material non-compliant incidents, claims, litigations or legal proceedings and there were no claims against himself in relation to the above-mentioned companies.

Mr. YEUNG Siu Wai (楊少威), aged 36, is our senior sales and marketing manager. He is responsible for overseeing the sales and marketing of our Group.

Mr. Yeung has more than 13 years of experience in the watch industry. Prior to joining our Group, Mr. Yeung worked as merchandiser at Watch Logistic International Limited from March 2004 to April 2008.

Mr. Yeung completed the professional diploma in purchasing and merchandising management at The Hong Kong Management Association in December 2004. He obtained a degree of bachelor of business administration in marketing from The Open University of Hong Kong in November 2012.

Mr. LAU Yue Man (劉禹文), aged 48, is our general manager and a director of Shenzhen 3 Wells. He is responsible for overseeing daily operation of our PRC production plant, and resolving production and products issues.

Mr. Lau has over 23 years of experience in management. Prior to joining our Group, he worked as a general manager in Golden Island Watch Industrial (Shenzhen) Limited* (金島錶業(深圳)有限公司) from June 1994 to December 1996, as a general manager in Han Lin Metal Products Manufactory Limited* (漢霖金屬製品廠有限公司) from January 1997 to April 2002, and as a technical director in Sutec (H.K.) Limited from August 2002 to January 2014.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Ms. AU Hung Wai Didy (歐紅慧), aged 51, is our vice general manager. She is responsible for overseeing research and development and procurement department.

Ms. Au has more than 30 years of experience in the watch industry. She joined 3 Wells in October 1986 as a quality controller and was promoted to purchase clerk in September 1988. She left 3 Wells in June 1996 and rejoined 3 Wells in January 1997 as a purchase and research and development manager, and she is currently the vice general manager (China operation).

She is the sister of Mrs. Cheuk, sister-in-law of Mr. Cheuk and aunt of Ms. Heide Cheuk.

Ms. Au was a director of the following company, which was dissolved, with details as follows:

Name of company	Place of Incorporation	Date of dissolution	Nature of Proceeding	Nature of business before dissolution
Champion Fame Development Limited (貫譽發展有限公司)	Hong Kong	11 October 2002	Striking Off	No business operation
Gain Wealthy Trading Limited (達昌貿易有限公司)	Hong Kong	10 March 2006	Deregistration (Note)	No business operation

Note: Under section 291AA of the Predecessor Companies Ordinance, an application for deregistration can only be made if (a) all members of such company agree to such deregistration; (b) such company has never commenced business or operation, or has ceased to carry on business or ceased operation for more than three months immediately before the application; and (c) such company has no outstanding liabilities.

Ms. Au confirmed that the above-mentioned company had remained solvent and had no outstanding liabilities on or before its dissolution, and has not been involved in any material non-compliant incidents, claims, litigations or legal proceedings and there were no claims against herself in relation to the above-mentioned companies.

Mr. CHAN Ho Tsun (陳浩浚), aged 31, is our quality & production manager. He is responsible for overseeing production control and quality compliance.

Mr. Chan has over 7 years of experience in quality control field of watch industry. He joined our Group as a quality manager for our PRC factory in April 2015. Prior to joining our Group, he worked as a TQM manager in Afair International Limited from October 2012 to April 2015.

Mr. Chan obtained a bachelor degree in engineering in manufacturing systems engineering in the City University of Hong Kong in September 2012. He is currently a provisional internal auditor registered under the International Register of Certificated Auditors.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Save as disclosed above and elsewhere in this prospectus (if any), each of the members of our senior management confirmed with respect to himself and herself that: (i) as at the Latest Practicable Date, he or she had no interests in our Shares within the meaning of Part XV of the SFO; (ii) he or she did not have any relationships with any Directors, members of our senior management, Substantial Shareholders or Controlling Shareholders as at the Latest Practicable Date; and (iii) he or she did not hold any directorships in any other public company the securities of which were listed on any securities market in Hong Kong and/or overseas in the last three years prior to the Latest Practicable Date.

COMPANY SECRETARY

Mr. XIE Xing (謝星) is the company secretary of our Company. Details of his qualifications and experience have been disclosed in the paragraph headed “Senior management” above in this section.

COMPLIANCE OFFICER

Mrs. Cheuk is the compliance officer of our Company. Details of her qualifications and experience have been disclosed in the paragraph headed “Executive Directors” above in this section.

AUTHORISED REPRESENTATIVES

Mrs. Cheuk and Mr. Xie Xing are our authorised representatives under Rule 5.24 of the GEM Listing Rules.

COMPLIANCE ADVISER

In accordance with Rule 6A.19 of the GEM Listing Rules, our Company has appointed TC Capital to be our compliance adviser. Pursuant to Rule 6A.23 of the GEM Listing Rules, our compliance adviser will advise us in the following circumstances:

- (1) before the publication of any regulatory announcement, circular or financial report;
- (2) where a transaction, which might be a notifiable or connected transaction, is contemplated including share issues and share repurchases;
- (3) where we propose to use the proceeds of the Share Offer in a manner different from that detailed in this prospectus or where our business activities, developments or results of operations deviate from any information in this prospectus; and
- (4) where the Stock Exchange makes an inquiry of us regarding unusual movements in the price or trading volume of our Shares or any other matters under Rule 17.11 of the GEM Listing Rules.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

The term of the engagement will commence on the Listing Date and end on the date on which we distribute our annual report as required under Rule 18.03 of the GEM Listing Rules for the second full financial year commencing after the Listing Date, or when the appointment of TC Capital is terminated, whichever is earlier. Such appointment may be subject to extension by mutual agreement.

BOARD PRACTICES

In the absence of extraordinary events, it is the practice of our Board to meet at least four times a year. At such meetings, our Directors conduct, among other things, an operational review of our business.

BOARD COMMITTEES

Audit Committee

Our Company established an audit committee on 20 June 2018 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. The members of the audit committee comprise Mr. Yu Sau Ning Homer M.H., Mr. Zhao Zhipeng and Ms. Yee Wai Fong Wendy. The chairperson of the audit committee is Mr. Yu Sau Ning Homer M.H.. The primary duties of the audit committee are mainly to make recommendations to our Board on the appointment and removal of the external auditor, review the financial statements and related materials and provide advice in respect of the financial reporting process and oversee the internal control procedures of our Group.

Remuneration Committee

Our Company established a remuneration committee on 20 June 2018 with written terms of reference in compliance with Rule 5.34 of the GEM Listing Rules, and paragraph B.1 of the Corporate Governance Code. The members of the remuneration committee comprise Mr. Zhao Zhipeng, Mr. Yu Sau Ning Homer M.H. and Ms. Heide Cheuk. The chairperson of the remuneration committee is Mr. Zhao Zhipeng. The primary duties of the remuneration committee are mainly to make recommendations to our Board on the overall remuneration policy and structure relating to our Directors and senior management of our Group, review and evaluate performance in order to make recommendations on the remuneration package of each of our Directors and senior management personnel as well as other employee benefit arrangements.

Nomination Committee

Our Company established a nomination committee on 20 June 2018 with written terms of reference in compliance with paragraph A.5 of the Corporate Governance Code. The members of the nomination committee comprise Mr. Cheuk, Mr. Yu Sau Ning Homer M.H. and Ms. Yee Wai Fong Wendy. The chairperson of the nomination committee is Mr. Cheuk. The nomination committee is mainly responsible for making recommendations to our Board on the appointment of Directors and the management of our Board succession.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

CORPORATE GOVERNANCE

Except for the deviation from provision A.2.1 of the Corporate Governance Code, our Company's corporate governance practices have complied with the Corporate Governance Code. Provision A.2.1 of the Corporate Governance Code stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual. Mr. Cheuk is the chairman of our Board and the chief executive officer of our Company. In view that Mr. Cheuk has been assuming day-to-day responsibilities in operating and managing our Group since 1986 and the rapid development of our Group, the Board believes that with the support of Mr. Cheuk's extensive experience and knowledge in the business of the Group, vesting the roles of both chairman of our Board and chief executive officer of our Company in Mr. Cheuk strengthens the solid and consistent leadership and thereby allows for efficient business planning and decision which is in the best interest to our Group.

The Directors consider that the deviation from provision A.2.1 of the Corporate Governance Code is appropriate in such circumstances. Notwithstanding the above, the Board is of the view that this management structure is effective for our Group's operations, and sufficient checks and balances are in place.

We are committed to achieving high standards of corporate governance with a view to safeguarding the interests of our shareholders as a whole. Our Directors are aware that upon Listing, we are expected to comply with such code provisions. Any such deviation shall however be carefully considered, and the reasons for such deviation shall be given in our interim report and annual report in respect of the relevant period. Save as disclosed in the above, we will comply with the code provisions set out in the Corporate Governance Code after Listing.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

Service contract/Letter of appointment with Directors

Each of our executive Directors has entered into a service contract with our Company for a term of three years commencing from 20 June 2018 (subject to termination in certain circumstances as stipulated in the relevant service contract). Each of our executive Directors is entitled to their respective basic salaries and may be entitled to a discretionary bonus. The current annual salaries (inclusive of bonus) of our executive Directors for their respective executive and management roles in our Group are as follows:

Name	Approximate annual salary (HK\$)
Mr. Cheuk	1,950,000
Mrs. Cheuk	1,300,000
Ms. Heide Cheuk	810,000

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Each of our independent non-executive Directors has entered into a letter of appointment with our Company for a period of three years commencing from 20 June 2018 (subject to termination in certain circumstances as stipulated in the relevant letter of appointment). The appointments are subject to the provisions of the Articles of Association with regard to vacation of office of Directors and removal and retirement by rotation of Directors. For the remuneration of each of the independent non-executive Directors, please refer to the paragraph headed “3. Remuneration of Directors” in Appendix V to this prospectus. Save for the directors’ fee, none of our independent non-executive Directors is expected to receive any other remuneration for holding their office as an independent non-executive Director and a member of any board committees of our Company.

Save as disclosed above, no Director has entered into any service agreement with any member of our Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

Emoluments paid during the Track Record Period

For each of the two years ended 31 December 2017, the aggregate amount of remuneration (including salaries, allowances and benefits in kind, performance related bonuses, and pension scheme contributions) paid by our Group to our Directors amounted to approximately HK\$4.7 million and HK\$4.8 million respectively. Under the arrangement currently in force, it is estimated that an aggregate remuneration (excluding any discretionary bonus) of approximately HK\$5.3 million is payable by our Group to our Directors for the year ending 31 December 2018.

For each of the two years ended 31 December 2017, the aggregate remuneration (including salaries, allowances and benefits in kind, performance related bonuses, and pension scheme contributions) paid by our Group to the five highest paid individuals, including the Directors, were approximately HK\$6.6 million and HK\$7.0 million, respectively. For details of the emoluments of our Directors and the five highest paid individuals of our Group during the Track Record Period, please refer to Note 12 of Appendix I to this prospectus.

During the Track Record Period, there was no amount paid to or receivable by any of the aforementioned five highest paid individuals or any of our Directors as inducement to join or upon joining the Group, and there was no compensation paid to or receivable by any of the aforementioned five highest paid individuals or any of our Directors or past directors for the loss of office as a director of any member of the Group or of any other office in connection with the management of the affairs of any member of the Group. There was no arrangement under which any of our Directors waived or agreed to waive any remuneration during the Track Record Period. Save as disclosed in this prospectus, no other emoluments have been paid, or are payable, by us to our Directors in respect of each of the two years ended 31 December 2017.

Subject to the review by and the recommendations of our remuneration committee, the remuneration policy we intend to adopt after the Listing for our Directors and senior management members will be based on comparable market levels and their performance and qualifications.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

EMPLOYEES

As at the Latest Practicable Date, our Group had 180 full-time employees who were directly employed by us in Hong Kong and in the PRC. For details about our employees and staff policy, please refer to the paragraph headed “Business – Employees” in this prospectus.

Our total staff cost (including salaries and other employees benefits) for each of two years ended 31 December 2017 amounted to approximately HK\$21.3 million and HK\$22.5 million respectively.

In Hong Kong, we operate a defined contribution retirement benefits scheme (the “**MPF Scheme**”) under the Mandatory Provident Fund Scheme Ordinance (Chapter 485) of the Laws of Hong Kong for all of our employees in Hong Kong who joined us after the commencement of this ordinance. Contributions are made based on a percentage of the employees’ basic salaries. We contribute the lower of HK\$1,500 or 5% of the relevant monthly salary to the MPF Scheme, a contribution to be matched by our employees.

Share Option Scheme

Our Company has conditionally adopted the Share Option Scheme on 20 June 2018 under which certain selected classes of participants (including, among others, full-time employees and Directors) may be granted options to subscribe for our Shares. The principal terms of the Share Option Scheme are summarised in the paragraph headed “D. Share Option Scheme” in Appendix V to this prospectus.

SUBSTANTIAL SHAREHOLDERS AND SIGNIFICANT SHAREHOLDERS

SUBSTANTIAL SHAREHOLDERS AND SIGNIFICANT SHAREHOLDERS

Our Substantial Shareholders and Significant Shareholders for the purposes of the GEM Listing Rules are set forth below:

Interests in our Company

Name	Number of Shares as at the Latest Practicable Date	Shareholding percentage in our Company as at the Latest Practicable Date	Number of Shares immediately following completion of the Capitalisation Issue and the Share Offer	Shareholding percentage in our Company immediately following completion of the Capitalisation Issue and the Share Offer
Million Easy ^(Note)	1	100%	750,000,000	75%
Mr. Cheuk ^(Note)	1	100%	750,000,000	75%
Mrs. Cheuk ^(Note)	1	100%	750,000,000	75%

Note: Million Easy is owned by Mr. Cheuk and Mrs. Cheuk in equal shares.

SHARE CAPITAL

SHARE CAPITAL OF OUR COMPANY

The authorised and issued share capital of our Company are as follows:

Number of Shares comprised in the authorised share capital immediately after the Capitalisation Issue and the Share Offer:

<i>Authorised share capital:</i>	<i>HK\$</i>
<u>10,000,000,000</u> Shares of par value of HK\$0.01 each	<u>100,000,000</u>

Assuming any options which may be granted under the Share Option Scheme are not exercised, the share capital of our Company immediately following the completion of the Capitalisation Issue and the Share Offer will be as follows:

<i>Shares issued and to be issued, fully paid or credited as fully paid, upon completion of the Capitalisation Issue and the Share Offer:</i>	<i>HK\$</i>
1 Share in issue as at the date of this prospectus	0.01
749,999,999 Shares to be issued pursuant to the Capitalisation Issue	7,499,999.99
<u>250,000,000</u> Shares to be issued pursuant to the Share Offer	<u>2,500,000.00</u>
<u>1,000,000,000</u> Shares in total	<u>10,000,000.00</u>

ASSUMPTIONS

The above tables assume that the Share Offer becomes unconditional and does not take into account any Shares to be allotted and issued pursuant to the exercise of any options to be granted under the Share Option Scheme, or any Shares which may be allotted and issued or repurchased by our Company pursuant to the Issue Mandate and Repurchase Mandate as described below or otherwise.

RANKING

The Offer Shares, including our Shares which will be issued pursuant to the exercise of any options to be granted under the Share Option Scheme, will rank *pari passu* in all respects with all other Shares in issue or to be issued as mentioned in this prospectus, and in particular, will rank in full for all dividends and other distributions declared, paid or made on our Shares in respect of a record date which falls after the date of this prospectus save for any entitlement under the Capitalisation Issue.

SHARE OPTION SCHEME

Our Company has conditionally adopted the Share Option Scheme, the principal terms of which are set out in the paragraph headed “D. Share Option Scheme” in Appendix V to this prospectus.

SHARE CAPITAL

GENERAL MANDATE TO ISSUE SHARES

Conditional on the conditions stated in the section headed “Structure and conditions of the Share Offer – Conditions of the Share Offer” in this prospectus, our Directors have been granted a general unconditional mandate to allot, issue and deal with Shares not exceeding the sum of:

- (i) 20% of the aggregate number of Shares in issue immediately following the completion of the Capitalisation Issue and the Share Offer; and
- (ii) the aggregate number of Shares repurchased by our Company (if any) pursuant to the Repurchase Mandate.

Our Directors may, in addition to our Shares which they are authorised to issue under this mandate, allot, issue and deal with our Shares pursuant to (a) a rights issue; (b) the exercise of rights of subscription, exchange or conversion under the terms of any warrants or convertible securities issued by our Company or any securities which are exchangeable into Shares; (c) the exercise of the subscription rights under options granted under the Share Option Scheme or any other similar arrangement of our Company from time to time adopted for the grant or issue to officers and/or employees and/or consultants and/or advisers of our Company and/or any of its subsidiaries and/or other persons of Shares or rights to acquire Shares; or (d) any scrip dividend or similar arrangement providing for allotment of Shares in lieu of the whole or part of a dividend on Shares in accordance with the Articles of Association.

The Issue Mandate will expire:

- at the conclusion of our Company’s next annual general meeting;
- upon the expiration of the period within which our Company is required by applicable laws or the Articles or the Companies Law to hold its next annual general meeting; or
- when varied or revoked by an ordinary resolution of the Shareholders in general meeting,

whichever occurs first.

For details of the Issue Mandate, please see the paragraph headed “A. Further information about our Group – 3. Written resolutions of the sole Shareholder passed on 20 June 2018” in Appendix V to this prospectus.

GENERAL MANDATE TO REPURCHASE SHARES

Conditional on the conditions stated in the section headed “Structure and conditions of the Share Offer – Conditions of the Share Offer” in this prospectus, our Directors have been granted a general unconditional mandate to exercise all the powers of our Company to repurchase not more than 10% of the total number of Shares in issue immediately following the completion of

SHARE CAPITAL

the Capitalisation Issue and the Share Offer, exclusive of any Shares which may be issued pursuant to the exercise of any options that may be granted under the Share Option Scheme.

The Repurchase Mandate relates only to repurchases made on GEM and/or on any other stock exchange on which our Shares are listed (and which is recognised by the SFC and the Stock Exchange for this purpose), and which are made in accordance with all applicable laws and requirements of the GEM Listing Rules. A summary of the relevant GEM Listing Rules is set out in the paragraph headed “A. Further information about our Group – 6. Repurchase of our Shares by our Company” in Appendix V to this prospectus.

The Repurchase Mandate will expire:

- at the conclusion of our Company’s next annual general meeting;
- upon the expiration of the period within which our Company is required by applicable laws or the Articles or the Companies Law to hold its next annual general meeting; or
- when varied or revoked by an ordinary resolution of the Shareholders in general meeting,

whichever occurs first.

For further information about the Repurchase Mandate, please refer to the paragraph headed “A. Further information about our Group – 3. Written resolutions of the sole Shareholder passed on 20 June 2018” in Appendix V to this prospectus.

CIRCUMSTANCES WHERE GENERAL MEETINGS AND CLASS MEETINGS ARE REQUIRED

Our Company has only a single class of Shares, namely ordinary Shares, with each Share ranking *pari passu* with the other shares.

The circumstances under which general meeting and class meeting are required are provided in the Articles. For details, please refer to the section headed “Summary of the constitution of the Company and the Cayman Islands company law – 2. Articles of Association – (ii) Variation of rights of existing shares or classes of shares” and “Alteration of capital” in Appendix IV to this prospectus.

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You should read the following discussion and analysis with our audited consolidated financial information for the two years ended 31 December 2017, including the notes thereto, included in the Accountants' Report set out in Appendix I to this document. The Accountants' Report has been prepared in accordance with HKFRSs. You should read the entire Accountants' Report and not merely rely on the information contained in this section.

The following discussion and analysis contain forward-looking statements that reflect our current views with respect to future events and financial performance. These statements are based on our assumptions and analysis in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, whether actual outcomes and developments will meet our expectations and predictions depends on a number of risks and uncertainties. In evaluating our business, you should carefully consider the information provided in the sections headed "Risk factors" and "Forward-looking statements" in this prospectus.

OVERVIEW

We are a watch manufacturer with our head office in Hong Kong and production facilities in the PRC and are principally engaged in design and development, manufacturing and distribution of watch products across the globe and in particular in Hong Kong, Brazil, UAE, Turkey and EU on an ODM basis during the Track Record Period.

BASIS OF PRESENTATION

The companies now comprising the Group underwent Reorganisation as disclosed in the section headed "History, reorganisation and group structure – Reorganisation" of the Prospectus. Before the completion of the Reorganisation, the operation of the Group was carried out by Million Easy, which was wholly and directly owned by Mr. Cheuk and Mrs. Cheuk, the Controlling Shareholders.

Our Group comprising our Company and our subsidiaries resulting from the Reorganisation has been under the common control of the Controlling Shareholders and is regarded as a continuing entity. Accordingly, 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 include 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 their respective dates of incorporation, whichever is a shorter period. The consolidated statements of financial position of the Group as at 31 December 2016 and 31 December 2017 have been prepared to present the assets and liabilities of the companies now comprising the Group as if the current group structure upon completion of the Reorganisation had been in existence at those dates taking into account the respective dates of incorporation, where applicable.

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KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Our financial conditions and results of operations have been and will continue to be affected by a number of factors, many of which may be beyond our control, including those factors set out in the section headed “Risk Factors” of this prospectus and those set out below.

Global watch market in particular Hong Kong, Brazil, UAE and Turkey and EU

For each of the two years ended 31 December 2017, our revenue was principally generated from our sale of watch products to our customers globally in particular in Hong Kong, Brazil, UAE, Turkey and EU, each of which accounted for over 5.0% of our total revenue in any of the years during the Track Record Period and in aggregate contributed to approximately 81.1% and 81.7% of our total revenue respectively. Any material variation in the social, political and economic conditions in these markets would therefore directly affect the demand of our products and may adversely and materially affect our business and our results of operation.

Ability to capture the latest fashion and technical trend in global watch market

Our watch products are closely tied with global fashion trends. The success and popularity of our watch products therefore depend on our ability to keep pace with changes in global fashion trends and to design marketable and appealing products for the selection of our customers accordingly. If we were unsuccessful in keeping pace with change in consumer preferences in watch design and quality, our sales, business, results of operations, and prospects may be materially and adversely affected.

Exposure to currency exchange fluctuations

Our purchase of watch parts are generally settled in HKD, while the overheads of our headquarter in Hong Kong and production plant in Shenzhen are settled in HKD and RMB respectively. On the other hand, our sales are primarily denominated in USD and HKD, which therefore exposes us to foreign exchange risk. Any significant adverse changes in the exchange rates between RMB and USD may result in losses for us and could have a material adverse effect on our business, results of operations and financial condition.

Exposure to interest rate fluctuations

In light of our relatively high gearing ratio during the Track Record Period and most of our bank overdrafts and borrowings bore interest at floating rates, any significant adverse change in the interest rates may result in increase in our finance costs and could have a material adverse effect on our business, results of operations and financial condition.

Materials cost

Materials cost represent a significant portion of our cost of sales. For each of the two years ended 31 December 2017, our materials cost represented approximately 90.2% and 91.1% of our total costs of sales respectively.

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The following sensitivity analysis illustrates the impact of hypothetical fluctuations in the materials cost on our profit before tax during the Track Record Period. The hypothetical fluctuation rates are set out at 10%, 15% and 20% which are considered reasonable for the purpose of this sensitivity analysis:

Hypothetical fluctuations of materials cost	+/- 10%	+/- 15%	+/- 20%
<i>Increase/decrease in profit before tax</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
For the year ended 31 December 2016	+/-9,336	+/-14,005	+/-18,673
For the year ended 31 December 2017	+/-11,273	+/-16,910	+/-22,546

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

We have prepared our financial statements in accordance with HKFRSs, which requires us to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that we believe to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. We review the estimates and underlying assumptions on an ongoing basis. We recognise revisions to accounting estimates in the period in which we revise the estimate if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. Our significant accounting policies and critical accounting estimates are summarised in notes 4 and 5 to our consolidated financial information included in the Accountants' Report set out as Appendix I to this prospectus. We believe that the following are the most significant estimates and judgements used in the preparation of our consolidated financial information.

Accounting policies

Revenue recognition

Provided it is probable that the economic benefits will flow to our Group and when the revenue can be measured reliably, we recognise revenue in the consolidated statement of profit or loss and other comprehensive income as follows:

(i) *Sales of goods*

We recognise revenue when goods are delivered and titles have passed to our customers which are taken to be the point in time when we have transferred to the buyer the significant risks and rewards of ownership of the goods; we retain 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.

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(ii) Rental income

Rental income from our properties let under operating leases is recognised on a straight-line basis over the period of the respective leases.

(iii) Interest income

We accrue interest income from a financial asset (other than a financial asset at fair value through profit or loss) on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Accounting estimates

Property, plant and equipment

Our property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual value. We review the estimated useful lives of the assets regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

Impairment of trade receivables

We make allowance for doubtful debts based on an assessment of the recoverability of trade and other receivables. Allowances are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of doubtful debts requires the use of judgement and estimates. Where the expectation on the recoverability of trade and other receivables is different from the original estimate, such difference will impact the carrying value of trade and other receivables and doubtful debts expenses in the periods in which such estimate has been changed.

Write-down of inventories

Inventories are stated at the lower of cost and net realisable value at the end of the reporting period. Net realisable value is determined on the basis of the estimated selling price less the estimated costs necessary to make the sale. Our management estimates the net realisable value for inventories based primarily on the latest invoice prices and current market conditions. In addition, our management performs an inventory review on a product-by-product basis at the end of the reporting period and assess the need for write-down of inventories.

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RESULTS OF OPERATIONS

The following table sets forth our selected consolidated statements of profit and loss and other comprehensive income during the Track Record Period as extracted from the Accountants' Report as set out in Appendix I to this prospectus.

	Year ended 31 December	
	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	151,892	174,817
Cost of sales	<u>(103,516)</u>	<u>(123,795)</u>
Gross Profit	48,376	51,022
Other income, and other loss, net	131	2,505
Selling and distribution expenses	(6,183)	(6,331)
Administrative expenses	(31,089)	(31,644)
Finance costs	(5,333)	(4,710)
Listing expenses	<u>–</u>	<u>(4,826)</u>
Profit before taxation	5,902	6,016
Income tax expense	<u>(1,835)</u>	<u>(2,056)</u>
Profit for the year	4,067	3,960
Other comprehensive (loss)/income for the year, net of tax	<u>(1,103)</u>	<u>490</u>
Total comprehensive income for the year	<u><u>2,964</u></u>	<u><u>4,450</u></u>

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DESCRIPTION OF SELECTED ITEMS IN CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Revenue

During the Track Record Period, all of our revenue was principally generated from our sale of watch products to our customers globally in particular in Hong Kong, Brazil, UAE, Turkey and EU, each of which accounted for over 5.0% of our total revenue in any of the years during the Track Record Period and in aggregate contributed approximately 81.1% and 81.7% of our total revenue during the Track Record Period respectively. The following table sets forth the breakdown of our revenue by geographic locations during the Track Record Period:

	Year ended 31 December			
	2016		2017	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Hong Kong	62,940	41.4	79,876	45.7
Brazil	20,513	13.5	31,755	18.2
UAE	7,108	4.7	9,842	5.6
Turkey	8,173	5.4	4,030	2.3
Others	53,158	35.0	49,314	28.2
	<u>151,892</u>	<u>100.0</u>	<u>174,817</u>	<u>100.0</u>

The increase in the proportion of sales from Hong Kong from approximately 41.4% for the year ended 31 December 2016 to approximately 45.7% for the year ended 31 December 2017 was principally due to the increase in our sales to Customer A and Customer Group C. On the other hand, the increase in the proportion of sales from Brazil from approximately 13.5% for the year ended 31 December 2016 to approximately 18.2% for the year ended 31 December 2017 was principally due to the increase in our sales to Customer B.

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During the Track Record Period, most of our revenue was generated from the sale of finished watches. Some of our revenue was also generated from the sale of SKD Kits. Our customers may also order a small quantity of watch parts from us as spare parts for repair purposes. Set out below is the breakdown of the Group's revenue by form of watch products during the Track Record Period:

	Year ended 31 December			
	2016		2017	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Finished watches <i>Note</i>	120,177	79.1	130,799	74.8
SKD Kits	28,895	19.0	41,515	23.7
Watch parts	2,820	1.9	2,503	1.4
	<u>151,892</u>	<u>100.0</u>	<u>174,817</u>	<u>100.0</u>

Note: For the year ended 31 December 2017, the revenue of our finished watches segment included the revenue generated from the sales of our branded products of approximately HK\$1.8 million.

The increase in the proportion of sales from SKD Kits from approximately 19.0% for the year ended 31 December 2016 to approximately 23.7% for the year ended 31 December 2017 was principally due to the increase in proportion of our sales to Customer B, who was the largest customer of SKD Kits, from approximately 12.6% of our total revenue for the year ended 31 December 2016 to approximately 14.4% of our total revenue for the year ended 31 December 2017.

Set out below is the breakdown of the Group's sales volume by form of watch products during the Track Record Period according to our internal record:

	Year ended 31 December	
	2016	2017
	<i>pieces</i>	<i>pieces</i>
Finished watches	661,009	711,788
SKD Kits	192,472	272,781
Watch parts	196,707	190,967

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Accordingly, the following table sets forth the average unit price of the Group's product by form (being the revenue of each form of product divided by the respective sales volume in the same period) during the Track Record Period:

	Year ended 31 December		
	2016	2017	% change
	<i>HK\$</i>	<i>HK\$</i>	<i>%</i>
Finished watches	181.8	183.8	1.1
SKD Kits	150.1	152.2	1.4
Watch parts	14.3	13.1	(8.4)

Other than watch parts, which contributed insignificantly to our total sales during the Track Record Period, the average unit price of each type of our product remained relatively stable for the years ended 31 December 2016 and 2017.

Cost of sales

Our Group's cost of sales primarily consisted of materials costs and direct labour costs, subcontracting costs and rental costs. The following table sets out the breakdown of our Group's cost of sales by types and their contribution to the total cost of sales of our Group for each of the year during the Track Record Period according to our internal record:

	Year ended 31 December			
	2016		2017	
	<i>HK\$'000</i>	<i>%</i>	<i>HK\$'000</i>	<i>%</i>
	(Unaudited)		(Unaudited)	
Materials costs	93,365	90.2	112,732	91.1
Direct labour costs	5,607	5.4	6,267	5.1
Subcontracting costs	1,281	1.2	1,424	1.2
Rental costs	1,408	1.4	1,491	1.2
Others	1,856	1.8	1,881	1.5
	<u>103,516</u>	<u>100.0</u>	<u>123,795</u>	<u>100.0</u>

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As set out in the above table, our materials costs were the largest components of our cost of sales and were principally comprised of case, band, dial and movement. The following sets forth a breakdown of our materials costs by nature for the Track Record Period according to our internal record:

	Year ended 31 December			
	2016		2017	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
	(Unaudited)		(Unaudited)	
Case	37,192	39.8	46,796	41.5
Band	28,982	31.0	31,586	28.0
Dial	12,765	13.7	15,782	14.0
Movement	8,594	9.2	10,428	9.3
Hand	2,679	2.9	3,642	3.2
Others	3,153	3.4	4,497	4.0
	93,365	100.0	112,732	100.0
	93,365	100.0	112,732	100.0

The cost proportion of each type of material used remained relatively stable for the years ended 31 December 2016 and 2017.

Gross profit and gross profit margin

The following table sets forth the breakdown of our gross profit and gross profit margin for the periods indicated:

	Year ended 31 December			
	2016		2017	
	Gross profit	Gross profit	Gross profit	Gross profit
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
	(Unaudited)		(Unaudited)	
Finished watches	38,535	32.1	38,800	29.7
SKD Kits	8,873	30.7	11,215	27.0
Watch parts	968	34.3	1,007	40.2
	48,376	31.8	51,022	29.2
	48,376	31.8	51,022	29.2

The gross profit margin of our finished watches products are generally higher than that of our SKD Kits product as the production of SKD Kits products does not require complete assembling works as it does for the production of our finished watches products.

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Our Directors are of the view that, other than product type, our gross profit margin of each order instead depends on a number of factors, including but not limited to, the quantity of order by our customers, our relationship with our customers and technical complexity of watch designs required by our customers, and therefore varies from order to order. In particular, other things being constant, we generally recorded higher gross profit margin for (i) the lower quantity of order by our customers, (ii) the purchase ordered by a customer who has a longer term of relationship with us and (iii) the products that required higher technical complexity by the customers.

Please refer to the section headed “Financial information – Period to period comparison of results of operations” below for the discussion of the fluctuation of our Group’s gross profit margin during the Track Record Period.

Other income, and other loss, net

The table below sets forth a breakdown of the Group’s other income and gain and loss, net by nature during the Track Record Period:

	Year ended 31 December	
	2016	2017
	<i>HK\$’000</i>	<i>HK\$’000</i>
Interest income	659	355
Interest income from related parties and director	913	759
Rental income	455	338
Exchange (loss)/gain, net	(55)	269
Sundry income	145	160
(Loss)/gain on disposal of investment property	(1,480)	600
Loss on disposal of property, plant and equipment, net	–	(3,080)
Net (loss)/gain arising from change in fair value of investment properties	(436)	3,218
Impairment loss on available-for-sale financial assets, net	(70)	–
Net loss arising from disposal of financial assets at FVTPL	–	(114)
	131	2,505

Interest income mainly comprised interest income from our insurance policies. For details, please refer to paragraph headed “Description of certain items of statement of financial position – Other financial assets” in this section. Interest income from related parties and director represented the interest on our loans advanced to 3 Wells Group Holdings Limited, Billion Start, Million Easy and Mr. Cheuk which were charged at the 12-month HK\$ interest settlement rates published on the website of the Hong Kong Association of Banks.

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Rental income represented the income generated from leasing (i) part of our office area in Hong Kong and part of our factory area in the PRC to Smart Hill, (ii) part of our office area in Hong Kong to an Independent Third Party and (iii) our two residential properties to Independent Third Parties. As at the Latest Practicable Date, the lease of part of our factory area in the PRC to Smart Hill had been ceased.

The loss on disposal of property, plant and equipment, net principally represented the loss of disposal of leasehold improvement of the Old Production Plant due to relocation of our production plant in June 2017.

Selling and distribution expenses

Our selling and distribution expenses principally include selling commission, freight and transportation expenses, salaries and other benefit of our sales staff, packing expenses and exhibition expenses. Selling commission represents the commission we paid to the sales representative in Germany and Smart Hill. For details, please refer to the paragraph headed “Business – Sales and marketing – Engagement of sales representatives” in this prospectus. The following table sets forth a breakdown of selling and distribution expenses for the periods indicated:

	Year ended 31 December			
	2016		2017	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
	(Unaudited)		(Unaudited)	
Selling commission	2,711	43.8	2,471	40.0
Freight and transportation expenses	1,088	17.6	1,303	21.1
Salaries and other benefit	1,017	16.4	883	14.3
Packing expenses	708	11.5	857	13.9
Exhibition expenses	620	10.0	766	12.4
Others	39	0.6	51	0.8
	<u>6,183</u>	<u>100.0</u>	<u>6,331</u>	<u>100.0</u>

The proportion of each nature of our selling and distribution expenses remained relatively stable for the years ended 31 December 2016 and 2017.

Our selling and distribution expenses accounted for approximately 4.1% and 3.6% to the total revenue for each of the two years ended 31 December 2017 respectively which were relatively stable.

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Administrative expenses

Administrative expenses mainly comprise staff costs, depreciation expenses, office expenses, traveling expenses, bank charges, entertainment expenses, legal and professional fees and insurance expenses. The breakdown of our administrative expenses for the Track Record Period is summarised below:

	Year ended 31 December			
	2016		2017	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
	(Unaudited)		(Unaudited)	
Staff costs	13,986	45.0	14,583	46.1
Depreciation expenses	5,102	16.4	4,664	14.7
Office expenses	2,423	7.8	2,506	7.9
Traveling expenses	2,141	6.9	2,204	7.0
Bank charges	2,144	6.9	2,071	6.5
Entertainment expenses	1,342	4.3	1,409	4.5
Legal and professional fees	664	2.1	849	2.7
Insurance expenses	419	1.3	424	1.3
Others	2,867	9.2	2,933	9.3
	<u>31,089</u>	<u>100.0</u>	<u>31,644</u>	<u>100.0</u>

The cost proportion of each nature of our administrative expenses remained relatively stable for the year ended 31 December 2016 and 2017.

Finance costs

Our Group's finance costs for the Track Record Period, which were related to the interest on bank borrowings and finance leases, are set forth below:

	Year ended 31 December	
	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on:		
Borrowings wholly repayable within five years	4,786	4,491
Obligation under finance leases	14	8
Bank overdraft interest	533	211
	<u>5,333</u>	<u>4,710</u>

For details of our bank borrowings and finance leases, please refer to the paragraph headed "Description of certain items of statements of financial position" in this section.

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Income tax expense

Our Hong Kong subsidiary is subject to Hong Kong Profits Tax at 16.5% of the estimated assessable profit during the Track Record Period. Our PRC subsidiary is subject to PRC EIT at 25.0% of the estimated assessable profit during the Track Record Period. Our Group has not been subject to any taxation in the Cayman Islands and BVI.

Our income tax expenses were approximately HK\$1.8 million and HK\$2.1 million for each of the two years ended 31 December 2017 respectively and the effective tax rates were approximately 31.1% and 34.2% respectively.

The substantially higher effective tax rate than the statutory tax rate of Hong Kong and the PRC for the year ended 31 December 2016 was mainly attributable to the non-deductible expense primarily resulted from the depreciation of property, plant and equipment and loss on disposal of an investment property in the same year.

The substantially higher effective tax rate than the statutory tax rate of Hong Kong and the PRC for the year ended 31 December 2017 was mainly attributable to the non-deductible expense in relation to the Listing.

Other comprehensive (loss)/income

We recorded other comprehensive loss, net of tax of approximately HK\$1.1 million and other comprehensive income, net of tax of approximately HK\$0.5 million for each of the two years ended 31 December 2017, respectively principally due to exchange differences arising on translation of the same amounts in the same years. The exchange differences arising on translation during the Track Record Period represented the translation differences when translating the functional currency of Shenzhen 3 Wells which is RMB to the presentation currency of our Group which is HKD.

PERIOD TO PERIOD COMPARISON OF RESULTS OF OPERATIONS

Year ended 31 December 2017 compared to year ended 31 December 2016

Revenue

Our revenue increased from approximately HK\$151.9 million for the year ended 31 December 2016 to approximately HK\$174.8 million for the year ended 31 December 2017, representing an increase of approximately HK\$22.9 million or approximately 15.1%. Such increase was principally due to the increase in our sales to Customer A of approximately HK\$5.8 million, Customer B of approximately HK\$6.0 million and Customer Group C of approximately HK\$9.4 million, which were primarily driven by the increase in our sales quantities to them and increase in the average selling price of our products sales to Customer A which was partially offset by the decrease in the average selling price of our products sales to Customer Group C in the same year. The average selling price of our watch products sales to Customer Group C

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decreased for the year ended 31 December 2017 as compared to that for the prior year because Customer Group C ordered from us a larger proportion of a brand that generally features less complex models (e.g. simple 3-hands women's watches) than its another brand that generally features more complex models (e.g. 6-hands multi-functions chronograph men's watches) and therefore command a relatively lower selling price.

Cost of sales

Our cost of sales increased from approximately HK\$103.5 million for the year ended 31 December 2016 to approximately HK\$123.8 million for the year ended 31 December 2017, or by approximately 19.6% alongside with the increase in our revenue in the same year.

Gross profit and gross profit margin

Alongside with the increase in our revenue, our gross profit increased by approximately 5.5% from approximately HK\$48.4 million for the year ended 31 December 2016 to approximately HK\$51.0 million for the year ended 31 December 2017. The extent of increase in our gross profit was smaller than the extent of increase in our revenue as our gross profit margin decreased from approximately 31.8% to 29.2% during the same year. The decrease in our gross profit margin was principally due to the decrease in the gross profit margin of our sales to Customer A and Customer B in the same year, which was principally resulted from (i) our acceptance of an unanticipated request by Customer A to change to a relatively higher quality electro-plating service provider i.e. Supplier G from the previous supplier with lower service quality after we confirmed a series of sales orders with Customer A by the end of the year ended 31 December 2016 and hence a relatively higher cost we incurred for the procurement of its service for the year ended 31 December 2017 but we did not fully pass the increased costs to Customer A in view of our long term business relationship with it; and (ii) our acceptance of a purchase order of more complex models in a relatively large quantity by Customer B but we did not increase the relevant selling price during our negotiation of the terms of sales order with Customer B in view of our long term business relationship with it and the relatively larger size of order quantities. Our gross profit margins for each order shall be determined on case by case basis due to factors such as our relationships with our customers, technical complexity of watch designs, delivery schedule required by our customers, and therefore varies from order to order.

Other income, and other loss, net

Our other income, and other loss, net increased from approximately HK\$0.1 million for the year ended 31 December 2016 to approximately HK\$2.5 million for the year ended 31 December 2017 as we recorded a gain on disposal in an investment property of approximately HK\$0.6 million (2016: a loss of approximately HK\$1.5 million) and a net gain arising from the change in fair value of our investment properties of approximately HK\$3.2 million (2016: net loss of approximately HK\$0.4 million), which was partially offset by the loss on disposal of property, plant and equipment, net of approximately HK\$3.2 million.

Selling and distribution expenses

Our selling and distribution expenses increased from approximately HK\$6.2 million for the year ended 31 December 2016 to approximately HK\$6.3 million or the year ended 31 December 2017 alongside with the increase in our revenue for the same year.

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Administrative expenses

Our administrative expenses were relatively stable at approximately HK\$31.1 million for the year ended 31 December 2016 and approximately HK\$31.6 million for the year ended 31 December 2017.

Finance costs

Our finance costs decreased from approximately HK\$5.3 million for the year ended 31 December 2016 to approximately HK\$4.7 million for the year ended 31 December 2017 principally due to the less use of bank overdrafts which carried a relatively higher effective interest rate of approximately 7.6% than bank borrowings which carried a relatively lower effective interest rate of approximately 3.0% during the Track Record Period.

Income tax expense

Our income tax expense increased from approximately HK\$1.8 million for the year ended 31 December 2016 to approximately HK\$2.1 million for the year ended 31 December 2017 alongside with the increase in our profit before tax (excluding listing expenses) in the same years.

Profit for the year and net profit margin

Our net profit slightly decreased from approximately HK\$4.1 million for the year ended 31 December 2016 to approximately HK\$4.0 million for the year ended 31 December 2017 and our net profit margin slightly decreased from approximately 2.7% to approximately 2.3% for same year. By excluding (i) the other income, and other loss, net which is not related to the Group's core business activities and (ii) the listing expenses, which is non-recurring in nature (together the “**Extraordinary Items**”), our adjusted net profit (the “**Adjusted Net Profit**”) increased from approximately HK\$3.9 million for the year ended 31 December 2016 to approximately HK\$6.3 million for the year ended 31 December 2017 principally due to the increase in our revenue, which was partially offset by the decrease in our gross profit margin in the same years. Despite the decrease in our gross profit margin, our adjusted net profit margin (the “**Adjusted Net Profit Margin**”) improved from approximately 2.6% to approximately 3.6% for same year principally due to (i) the decrease in the proportion of our selling and distribution expenses and administrative expenses to our total revenue from approximately 24.5% to approximately 21.7% and (ii) the decrease in our finance cost for the same years.

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STATEMENTS OF FINANCIAL POSITION

The following table sets forth our consolidated statements of financial position during the Track Record Period, details of which are set out in the Accountants' Report in Appendix I to this prospectus.

	As at 31 December	
	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current assets		
Property, plant and equipment	39,098	35,860
Investment properties	17,882	15,000
Available-for-sale financial assets	440	440
Deferred income tax assets	85	139
	<u>57,505</u>	<u>51,439</u>
Current assets		
Inventories	16,246	14,431
Trade receivables	22,490	49,124
Other receivables, deposits and prepayments	5,299	3,319
Amount due from a director	23,396	–
Amounts due from an ultimate holding company	7,862	11,118
Amounts due from related parties	21,330	–
Other financial assets	16,324	16,673
Pledged bank deposits	–	28,505
Cash and cash balances	10,593	9,431
	<u>123,540</u>	<u>132,601</u>
Current liabilities		
Trade payable	38,893	33,722
Bills payables	21,296	18,493
Other payables, receipts in advance and accrued expenses	12,752	11,472
Amount due to a director	–	26
Bank overdrafts	9,513	1,013
Borrowings	69,558	64,091
Obligation under finance leases	203	144
Tax payable	1,363	693
	<u>153,578</u>	<u>129,654</u>
Net current (liabilities)/assets	<u>(30,038)</u>	<u>2,947</u>
Total assets less current liabilities	<u>27,467</u>	<u>54,386</u>

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	As at 31 December	
	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current liabilities		
Borrowings	–	22,000
Obligation under finance leases	17	486
	17	22,486
	27,450	31,900
Net assets		
	1,000	–
Share capital	26,450	31,900
Reserves	27,450	31,900
	27,450	31,900

DESCRIPTION OF CERTAIN ITEMS OF STATEMENTS OF FINANCIAL POSITION

Property, plant and equipment

Our plant and equipment principally comprised buildings, plant and machinery, furniture, fixtures and equipment. Other than the leasehold improvement of approximately HK\$2.0 million due to renovation of the New Production Plant and the purchase of a new motor vehicle of approximately HK\$1.4 million, we did not have material addition to our property, plant and equipment during the Track Record Period.

Investment properties

The carrying amount of our investment properties decreased from approximately HK\$17.9 million as at 31 December 2016 to approximately HK\$15.0 million as at 31 December 2017 due to the disposal of an investment property, which was partially offset by the increase in fair value of our investment property portfolio.

Please refer to the valuation reports set out in Appendix III to this prospectus for details relating to our investment properties.

Available-for-sale financial assets

Our available-for-sale financial assets represents the two club memberships we hold in Hong Kong.

Inventories

Our inventories consist of raw materials, work in progress and finished goods. For interchangeable raw materials such as precious stones and movements, we shall keep certain level of inventory. For non-interchangeable raw materials, we source upon confirmation of

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production orders. We also maintain certain level of finished watches for our own branded product business. In addition, as different kinds of watch parts and components might be delivered to us by our suppliers at different time and assembling may not commence immediately as we would need all major materials to arrive before we commence assembling, our inventory balance as at the balance sheet dates during the Track Record Period may fluctuate from time to time. The following table sets forth a summary of our inventory balances as at the dates indicated:

	As at 31 December	
	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
Raw material	5,562	7,725
Work in progress	8,258	4,796
Finished goods	2,426	1,910
	<u>16,246</u>	<u>14,431</u>

The table below sets out our inventory by ageing as at the dates indicated:

	As at 31 December	
	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
Raw Materials		
Within 6 months	2,198	1,881
6 to 12 months	369	1,711
Over 12 months	2,995	4,133
	<u>5,562</u>	<u>7,725</u>
Sub-total	<u>5,562</u>	<u>7,725</u>
Work in Progress		
Within 6 months	8,258	4,796
6 to 12 months	–	–
Over 12 months	–	–
	<u>8,258</u>	<u>4,796</u>
Sub-total	<u>8,258</u>	<u>4,796</u>
Finished Goods		
Within 6 months	1,657	1,084
6 to 12 months	44	402
Over 12 months	725	424
	<u>2,426</u>	<u>1,910</u>
Sub-total	<u>2,426</u>	<u>1,910</u>
Total	<u>16,246</u>	<u>14,431</u>

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To minimise the risk of building up aged inventory, we carry out an inventory review and an ageing analysis on a regular basis. Our management performs an inventory review on a product-by-product basis at the end of the reporting period and assess the need for write-down of inventories.

Our inventories amounted to nil and approximately HK\$0.5 million as at 31 December 2016 and 31 December 2017 had been written-off respectively. As at the Latest Practicable Date, approximately HK\$7.7 million or 99.1% of the raw materials, HK\$4.1 million or 84.7% of work-in-progress and HK\$1.9 million or 99.6% of the finished goods as at 31 December 2017 were utilised or sold.

The following table sets out our inventory turnover days for the years indicated:

	Year ended 31 December	
	2016	2017
	<i>days</i>	<i>days</i>
Inventory turnover days	<u>50.7</u>	<u>45.2</u>

Note: Inventory turnover days is calculated by the average inventory, net of impairment, as at the respective year ended divided by the total cost of sales for the year and multiplied by 365 days.

Our inventory turnover days remained relatively stable at approximately 50.7 days for the year ended 31 December 2016 and approximately 45.2 days for the year ended 31 December 2017 and the variation was principally resulted from the decrease in the year-end balance of our inventory due to normal inventory level fluctuation but an increase in our cost of sales in the same year.

Trade receivables

Our trade receivables primarily comprise of outstanding amount receivable by us from our customers. Our trade receivables increased from approximately HK\$22.5 million as at 31 December 2016 to approximately HK\$49.1 million as at 31 December 2017 primarily due to the increase in the trade receivables from Customer A and Customer Group C, which principally resulted from the sales recognised from them in the fourth quarter of the year ended 31 December 2017 but yet settled as at 31 December 2017 as the relevant outstanding amounts were still within the credit period we agreed with them.

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We generally offer a credit period of 30 to 90 days to our customers from the date of invoices. For certain customers with long-established relationship and good past repayment histories, a longer credit period of more than 90 days may be granted. The following table sets out our ageing analysis of trade receivables from our customers (after provision of impairment), presented based on the invoice date, as at the dates indicated:

	As at 31 December	
	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
0–30 days	13,016	20,759
31–60 days	7,640	13,666
61–90 days	204	7,792
Over 90 days	1,630	6,907
	22,490	49,124
	22,490	49,124

We did not impair any trade receivables as at 31 December 2016 and 2017.

Approximately HK\$7.5 million and HK\$16.3 million of our trade receivables as at 31 December 2016 and 31 December 2017 respectively were past due at the end of the year for which the Group has not provided for impairment loss. Our Directors consider that there has not been a significant change in credit quality of the trade receivables and there is no recent history of default, therefore the amounts are considered recoverable.

As at the Latest Practicable Date, approximately HK\$49.07 million or 99.9% of the trade receivables outstanding as at 31 December 2017 were settled.

The following table sets out the trade receivables turnover days for the years indicated:

	Year ended 31 December	
	2016	2017
	<i>days</i>	<i>days</i>
Trade receivables turnover days	54.7	74.8
	54.7	74.8
	54.7	74.8

Note: Trade receivables turnover days is calculated by the average trade receivables, net of impairment, as at the respective year ended divided by the total revenue for the year and multiplied by 365 days.

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Our trade receivables turnover days during the Track Record Period were within the stipulated credit period we agreed with our customers. The increase of our trade receivables turnover days from approximately 54.7 days for the year ended 31 December 2016 to approximately 74.8 days for the year ended 31 December 2017 was principally resulted from the increase in the trade receivables balances from Customer A and Customer Group C in the same period due to the reasons explained above.

Other receivables, deposits and prepayments

The following table sets out our other receivables, deposits and prepayments as at the dates indicated:

	As at 31 December	
	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
Other receivables	193	338
Deposits	385	695
Prepayments	4,721	2,286
	<u>5,299</u>	<u>3,319</u>

Our prepayments mainly represented our deposits made to our suppliers. The decrease in prepayments from approximately HK\$4.7 million for the year ended 31 December 2016 to approximately HK\$2.3 million for the year ended 31 December 2017 was principally due to the utilization of our deposits made to our suppliers.

Amounts due from/(to) a director

Amount due from/(to) a director during the Track Record Period represents amount due from/(to) Mr. Cheuk to the Group. The amount due from Mr. Cheuk is unsecured, interest-bearing at HIBOR, non-trade nature and repayable on demand. The amount due to Mr. Cheuk is unsecured, non-interest-bearing, non-trade nature and repayable on demand. All the outstanding amounts from/(to) a director will be fully settled upon Listing.

Amount due from an ultimate holding company

The amounts due from an ultimate holding company represent the amounts due from Million Easy, our Controlling Shareholder, represented the outstanding balance of the loan advanced by our Group to it and are unsecured, interest bearing at HIBOR, non-trade nature and recoverable on demand and will be fully settled upon Listing.

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Amounts due from related parties

The following table sets out the breakdown of our amounts due from related parties as at the dates indicated:

	As at 31 December	
	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
Amounts due from related parties:		
3 Wells Group Holdings Limited	6,660	–
Billion Start	14,656	–
Yau Tong	14	–
	<u>21,330</u>	<u>–</u>

The amounts due from 3 Wells Group Holdings Limited, which is owned as to 50.5% by Mr. Cheuk and 49.5% by Mrs. Cheuk are unsecured, interest bearing at HIBOR, non-trade nature and recoverable on demand. The amounts due from 3 Wells Group Holdings Limited had been fully settled as at 31 December 2017.

The amounts due from Billion Start, which is indirectly wholly owned by Mr. Cheuk and Mrs. Cheuk through Million Easy and Yau Tong are unsecured, interest bearing at HIBOR, non-trade nature and recoverable on demand. The amounts due from Billion Start had been fully settled as at 31 December 2017.

The amount due from Yau Tong, which is indirectly wholly owned by Mr. Cheuk and Mrs. Cheuk through Million Easy are unsecured, interest bearing at HIBOR, non-trade nature and recoverable on demand. The amounts due from Yau Tong had been fully settled as at 31 December 2017.

Other financial assets

Other financial assets represent the two life insurance policies we entered into to insure Mr. Cheuk and Mrs. Cheuk (the “**Life Insurance Policies**”) as a pledge to secure our bank borrowings. The total insured sum is US\$5.0 million (equivalent to approximately HK\$39.0 million). Our Group was required to pay an upfront deposit of approximately USD1.9 million (equivalent to approximately HK\$15.0 million). As at 31 December 2016 and 31 December 2017, such deposit for life insurance policy amounted to approximately HK\$16.3 million and HK\$16.7 million respectively.

Trade payables and bills payables

Our trade and bills payables were mainly incurred for the purchase of watch parts and components from suppliers. Our trade and bills payables decreased from approximately HK\$60.2 million as at 31 December 2016 to approximately HK\$52.2 million as at 31 December 2017 principally due to our less use of bank bills to settle the payment to our suppliers and our settlement of a relatively large amount of trade payables by the year ended 31 December 2017.

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The credit period granted by our suppliers ranges from 30 to 120 days from the issue of monthly statement by our suppliers to us in general. The following table sets out the ageing analysis of our trade payables as at the end of each of the reporting dates presented based on the invoice dates:

	As at 31 December	
	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
0–30 days	6,038	6,957
31–60 days	7,778	10,900
61–90 days	8,235	10,238
91–120 days	9,149	5,275
Over 120 days	7,693	352
	<u>38,893</u>	<u>33,722</u>
	<u>38,893</u>	<u>33,722</u>

As at the Latest Practicable Date, all of the trade payables outstanding as at 31 December 2017 were settled.

Bills payables are all mature within 30 to 120 days. The following is an ageing analysis of bills payables presented based on the date of bills at the end of each reporting period:

	As at 31 December	
	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
0–30 days	12,123	6,529
31–60 days	5,678	9,696
61–90 days	3,172	2,268
91–120 days	323	–
	<u>21,296</u>	<u>18,493</u>
	<u>21,296</u>	<u>18,493</u>

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The following table sets out our trade and bills payables turnover days during the year indicated:

	Year ended 31 December	
	2016	2017
	<i>days</i>	<i>days</i>
Trade and bills payables turnover days	230.4	165.7

Note: Trade and bills payables turnover days is calculated by the average trade payables as at the respective year ended divided by the total cost of sales for the year and multiplied by 365 days.

The substantially higher trade and bills payables turnover days of our Group than the credit period offered by our suppliers was principally due to our use of bills financing to settle the trade payables close to the end of the credit period offered by our suppliers and we shall subsequently settle the bills payable before the due date. The decrease in our trade and bills payables turnover days from approximately 230.4 days to approximately 165.7 days was principally resulted from the decrease in our trade and bills payables balances in the same period due to our less use of bank bills to settle the payment to our suppliers and our settlement of a relatively large amount of trade payables by end of the year 2017 as explained above.

Other payables, receipts in advance and accrued expenses

The following table sets out the breakdown of our other payables, receipts in advance and accrued expenses as at the dates indicated:

	As at 31 December	
	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
Receipts in advance	5,606	6,058
Salary and bonus payables	2,729	2,695
Other payables	2,687	273
Accrued expenses	1,730	2,446
	12,752	11,472

Our other payables, receipts in advance and accrued expenses were relatively stable during the Track Record Period.

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INDEBTEDNESS

The following table sets out our Group's indebtedness as at the respective financial position dates:

	As at		As at
	31 December		30 April
	2016	2017	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Current			
Amount due to a director	–	26	–
Bank overdraft	9,513	1,013	1,933
Borrowings	69,558	64,091	37,712
Obligation under finance leases	203	144	129
	<u>79,274</u>	<u>65,274</u>	<u>39,774</u>
Non-current			
Borrowings	–	22,000	22,000
Obligation under finance leases	17	486	442
	<u>17</u>	<u>22,486</u>	<u>22,442</u>
Total	<u>79,291</u>	<u>87,760</u>	<u>62,216</u>

Our total indebtedness increased from approximately HK\$79.3 million as at 31 December 2016 to approximately HK\$87.8 million as at 31 December 2017 principally due to the increase in our total bank borrowings from approximately HK\$69.6 million to approximately HK\$86.1 million in the same years.

Our total indebtedness decreased from approximately HK\$87.8 million as at 31 December 2017 to approximately HK\$62.2 million as at 30 April 2018 principally due to the repayment of the current portion of our bank borrowings in the same period.

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Bank overdraft and borrowings

Set out below is the breakdown of our bank overdrafts and bank loans as at the respective financial position dates:

	As at 31 December	
	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current		
Bank overdrafts	9,513	1,013
Bank borrowings	69,558	64,091
Non-current		
Bank borrowings	–	22,000
	79,071	87,104
	79,071	87,104

According to the repayment schedule, the bank loans and bank overdrafts are repayable as follows:

	As at 31 December	
	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	70,419	59,031
Over one year but within two years	3,201	24,977
Over two year but within five years	5,292	2,642
Over five years	159	454
	79,071	87,104
Less: amount classified as current liabilities secured borrowings due within one year or contain a repayment on demand clause	(79,071)	(65,104)
Amount classified as non-current liabilities	–	22,000

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Most of our bank overdraft and borrowings during the Track Record Period bore interest at floating rates. Set out below is the breakdown of our bank overdraft and borrowings by interest rate terms as at the respective financial position dates:

	As at 31 December	
	2016	2017
	HK\$'000	HK\$'000
Fixed-rate borrowings	235	–
Variable-rate borrowings	78,836	87,104
	<u>79,071</u>	<u>87,104</u>

Our bank overdrafts and bank borrowings during the Track Record Period were primarily denominated in HKD and USD. The underlying weighted average effective interest rates of our bank overdrafts were approximately 7.6% and 6.0% per annum for each of the two years ended 31 December 2017, respectively. And the underlying weighted average effective interest rates of our bank borrowings were approximately 3.0% and 3.8% per annum for each of the two years ended 31 December 2017, respectively.

As at 30 April 2018, being the latest practicable date for determining the Group's indebtedness, our bank overdrafts and bank borrowings were secured by (i) the personal guarantee of our Directors, (ii) the Life Insurance Policies, (iii) the corporate guarantee of our subsidiaries, (iv) the corporate guarantee of Million Easy, (v) the properties hold by Cheer China, Billion Start and Mr. Cheuk and (vi) charge of deposit of 3 Wells. Please see note 30 to the accountants' report in Appendix I to this prospectus for details of these securities.

Our Directors confirm that the above guarantees provided by our Controlling Shareholders and their associates will be released upon Listing.

As at 30 April 2018, being the latest practicable date for determining the Group's indebtedness, the total amount of banking facilities available to our Group was approximately HK\$106.4 million and the total unutilised banking facilities of our Group was approximately HK\$47.3 million of which approximately HK\$45.7 million was trade related and therefore could not be used for other purposes.

Our Directors confirm that our banking facilities were not subject to material covenants and our Group has not experienced any difficulty in obtaining bank borrowing, default in payment on bank borrowings or breach of finance covenants during the Track Record Period and up to the Latest Practicable Date and that they do not foresee any difficulty for our Group in obtaining bank borrowings after the Latest Practicable Date.

Obligation under finance leases

The Group leased its motor vehicle under a finance lease with lease term of three years. Interest rate underlying obligation under a finance lease is variable at 4.4% and 4.9% per annum as at 31 December 2016 and 31 December 2017, respectively.

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LIQUIDITY AND CAPITAL RESOURCES

Our operation has been principally funded through a combination of cash generated from our operations, bank bills, bank overdrafts, borrowings and finance lease during the Track Record Period. Upon completion of the Share Offer, our liquidity will be satisfied by a combination of proceeds from the Share Offer, cash generated from our operations, bank bills, bank overdrafts, borrowings and finance lease.

Cash flow

The following table summarises the net cash flow of our activities for the Track Record Period:

	Year ended 31 December	
	2016	2017
	HK\$'000	HK\$'000
Net cash generated from/(used in) operating activities	4,050	(4,894)
Net cash (used in)/generated from investing activities	7,474	(24,939)
Net cash (used in)/generated from financing activities	1,903	36,614
Net (decrease)/increase in cash and cash equivalents	13,427	6,781
Cash and cash equivalent at beginning of the year	(11,583)	1,080
Effect of foreign exchange rate changes	(764)	557
Cash and cash equivalent at end of the year	1,080	8,418

Net cash generated from operating activities

Net cash generated from operating activities primarily consisted of profit before taxation adjusted for non-cash items, such as depreciation of plant and equipment, loss on disposal of investment property, fair value change from investment properties, interest expense and the effect of changes in working capital.

Cash flow generated from operating activities is the major source of funds of our Group during the Track Record Period. We primarily derive our cash inflows from the receipt of payments from the sale of our watch products. Our cash used in operations principally comprises payment of purchases of materials, selling and distribution expenses and administrative expenses.

For the year ended 31 December 2016, our net cash from operating activities was approximately HK\$4.1 million, primarily as a result of the combined effects of (i) approximately HK\$17.1 million operating profit before movements in working capital, (ii) the decrease in trade receivables of approximately HK\$0.5 million, (iii) the decrease in amounts due from/to a director of approximately HK\$4.6 million, (iv) the decrease in amounts due from related parties of approximately HK\$0.5 million, (v) the increase in trade payables of approximately HK\$5.8 million, which was partially offset by (i) the increase in inventories of approximately HK\$3.7

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million, (ii) the increase in other receivables, deposits and prepayments of approximately HK\$0.7 million, (iii) the increase in amounts due from an ultimate holding company of approximately HK\$1.0 million, (iv) the decrease in bills payables of approximately HK\$16.1 million, (v) the decrease in other payables, receipts in advance and accrued expenses of approximately HK\$2.5 million and (vi) the income tax paid of approximately HK\$0.3 million.

For the year ended 31 December 2017, our net cash used in operating activities was approximately HK\$4.8 million, primarily as a result of the combined effects of (i) approximately HK\$13.7 million operating profit before movements in working capital, (ii) the decrease in inventories of approximately HK\$1.8 million, (iii) the decrease in other receivables, deposits and prepayments of approximately HK\$2.0 million, (iv) the decrease in amounts due from/to a director of approximately HK\$23.4 million, which was partially offset by (i) the increase in trade receivables of approximately HK\$26.6 million; (ii) the increase in amounts due from an ultimate holding company of approximately HK\$3.3 million, (iii) the increase in amounts due from related parties of approximately HK\$3.9 million, (iv) the decrease in trade payables of approximately HK\$5.2 million, (v) the decrease in bills payables of approximately HK\$2.8 million, (vi) the decrease in other payables, receipts in advance and accrued expenses of approximately HK\$1.3 million, and (vii) the income tax paid of approximately HK\$2.8 million.

Net cash (used in)/generated from investing activities

For the year ended 31 December 2016, we had net cash generated from investing activities of approximately HK\$7.5 million which was mainly attributable to the proceeds received from sales of one of our investment properties of HK\$7.0 million.

For the year ended 31 December 2017, we had net cash used in investing activities of approximately HK\$24.9 million which was mainly attributable to the increase in pledged bank deposits of approximately HK\$28.5 million and our purchase of furniture, fixture and equipment of approximately HK\$4.1 million which was partially offset by the proceeds received from sales of one of our investment properties of HK\$6.7 million.

Net cash (used in) financing activities

For the year ended 31 December 2016, our net cash generated from financing activities was approximately HK\$1.9 million, mainly attributable to the proceeds from new borrowings of approximately HK\$307.9 million, which was partially offset by the payment of borrowings interest of approximately HK\$5.3 million and the repayment of borrowings of approximately HK\$300.4 million.

For the year ended 31 December 2017, our net cash generated from financing activities was approximately HK\$36.6 million, mainly attributable to the proceeds from new borrowings of approximately HK\$320.8 million, which was partially offset by the payment of borrowings interest of approximately HK\$4.7 million and the repayment of borrowings of approximately HK\$279.3 million.

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Net current assets

The following table sets forth the breakdown of the Group's current assets and liabilities as at the dates indicated:

	As at		As at
	31 December 2016	2017	30 April 2018
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Current assets			
Inventories	16,246	14,431	18,442
Trade receivables	22,490	49,124	28,466
Other receivables, deposits and prepayments	5,299	3,319	4,114
Tax recoverable	–	–	–
Amount due from a director	23,396	–	–
Amount due from an ultimate holding company	7,862	11,118	6,531
Amount due from related parties	21,330	–	–
Other financial assets	16,324	16,673	16,763
Pledged bank deposits	–	28,505	28,510
Cash and cash balances	10,593	9,431	7,565
	<u>123,540</u>	<u>132,601</u>	<u>110,391</u>
Current liabilities			
Trade payable	38,893	33,722	31,922
Bills payables	21,296	18,493	27,529
Other payables, receipts in advance and accrued expenses	12,752	11,472	9,467
Amounts due to a director	–	26	–
Bank overdrafts	9,513	1,013	1,933
Borrowings	69,558	64,091	37,712
Obligation under finance leases	203	144	129
Tax payable	1,363	693	408
	<u>153,578</u>	<u>129,654</u>	<u>109,100</u>
Net current (liabilities)/assets	<u>(30,038)</u>	<u>2,947</u>	<u>1,291</u>

FINANCIAL INFORMATION

We recorded a net current liabilities position as at 31 December 2016 which were mainly attributable to the re-classification of certain borrowings from non-current liabilities to current liabilities due to the “repayment on demand” clause stipulated in relevant facility letters we entered into with the banks prior to the Track Record Period. Such borrowings were secured by our properties which were non-current in nature and therefore led to the mismatch of asset and liabilities. Our net current liabilities position of approximately HK\$30.0 million as at 31 December 2016 was turnaround to a net current assets position of approximately HK\$2.9 million as at 31 December 2017. The turnaround was mainly due to (i) the increase in trade receivables of approximately HK\$26.6 million, (ii) the increase of amount due from an ultimate holding company of approximately HK\$3.3 million, (iii) the increase in other financial assets of approximately HK\$0.3 million, (iv) the increase in pledged bank deposits of approximately HK\$28.5 million, (v) the decrease in trade payables of approximately HK\$5.2 million, (vi) the decrease in bills payables of approximately HK\$2.8 million, (vii) the decrease in other payables, receipts in advance and accrued expenses of approximately HK\$1.3 million, (viii) the decrease in bank overdrafts of approximately HK\$8.5 million, (ix) the decrease in borrowings of approximately HK\$5.5 million, (x) the decrease in obligation under finance leases of approximately HK\$59,000, (xi) the decrease in tax payable of approximately HK\$0.7 million, which was partially offset by (i) the decrease in inventories of approximately HK\$1.8 million, (ii) the decrease in other receivables, deposits and prepayments of approximately HK\$2.0 million, (iii) the decrease in amount due from a director of approximately HK\$23.4 million, (iv) the decrease in amounts due from related parties of approximately HK\$21.3 million, (v) the decrease in cash and cash balances of approximately HK\$1.2 million and (vi) the increase in amount due to a director of approximately HK\$26,000.

Our net current liabilities assets decreased from approximately HK\$2.9 million as at 31 December 2017 to approximately HK\$1.3 million as at 30 April 2018. The decrease was mainly due to (i) the decrease in trade receivables of approximately HK\$20.7 million, (ii) the decrease of amount due from an ultimate holding company of approximately HK\$4.6 million, (iii) the decrease in cash and cash balances of approximately HK\$1.9 million, (iv) the increase in bills payables of approximately HK\$9.0 million and (v) the increase in bank overdrafts of approximately HK\$0.9 million, which was partially offset by (i) the increase in inventories of approximately HK\$4.0 million, (ii) the increase in other receivables, deposits and prepayments of approximately HK\$0.8 million, (iii) the increase in other financial assets of approximately HK\$90,000, (iv) the increase in pledged bank deposits of approximately HK\$5,000, (v) the decrease in trade payables of approximately HK\$1.8 million, (vi) the decrease in other payables, receipts in advance and accrued expenses of approximately HK\$2.0 million, (vii) the decrease in amount due to a director of approximately HK\$26,000, (viii) the decrease in borrowings of approximately HK\$26.4 million, (ix) the decrease in obligation under finance leases of approximately HK\$15,000 and (x) the decrease in tax payable of approximately HK\$0.3 million.

For details of the movement of our current assets and liabilities items, please refer to the paragraphs headed “Description of certain items of statements of financial position” in this section.

FINANCIAL INFORMATION

WORKING CAPITAL

Our Directors have confirmed that we have sufficient working capital for our requirements for at least the next 12 months from the date of the prospectus, taking into account our cash flows from operations, our available banking facilities and the estimated net proceeds from the Share Offer.

CAPITAL EXPENDITURES

Our Group's capital expenditures consisted mainly of leasehold improvement, purchase of furniture, fixture and equipment, machinery and motor vehicles of approximately HK\$0.6 million and HK\$4.7 million for each of the years ended 31 December 2016 and 2017 respectively. Our Group primarily funded its capital expenditures through internal resources and borrowings.

COMMITMENTS

Capital commitment

As at 31 December 2016 and 2017, we had no significant capital commitment.

Operating lease commitment

During the Track Record Period, our Group leases our production facilities and staff dormitories in the PRC and directors' quarter in Hong Kong under operating lease. The leases run for an initial period of 2 to 5 years with options to renew the lease terms upon expiry when all terms are re-negotiated. The total future minimum lease payments under these leases are due as follow:

	As at 31 December	
	2016	2017
	HK\$'000	HK\$'000
Within one year	1,703	891
More than one year, but not more than five years	<u>1,278</u>	<u>741</u>
	<u><u>2,981</u></u>	<u><u>1,632</u></u>

Save as disclosed above, the Group did not have any outstanding contractual and capital commitments as at the Latest Practicable Date.

FINANCIAL INFORMATION

CONTINGENT LIABILITIES

As at 30 April 2018, being the latest practicable date for determining the Group's indebtedness, save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities, our Group did not have outstanding loan capital issued or agreed to be issued, bank overdrafts, loans, debt securities or other similar indebtedness, liabilities under acceptances (other than normal trade bills) or acceptable credits, debentures, mortgages, charges, finance leases, hire purchases commitments, guarantees or other material contingent liabilities.

OFF-BALANCE SHEET ARRANGEMENT

As at the Latest Practicable Date, the Group did not have any off-balance sheet arrangements or commitments.

TRANSACTIONS WITH RELATED PARTIES

Please refer to the paragraph headed "Related Party Transactions" in note 38 of the notes to the Accountants' Report in Appendix I to this prospectus. Our Directors confirm that these transactions were conducted in arm's length basis and on normal commercial terms and terms that were comparable to those available from the Independent Third Parties in all material aspects and were fair and reasonable and in the interest of our Group as a whole.

DIVIDEND

No dividends had been declared by our Group during the Track Record Period.

There is no expected dividend payout ratio after the Listing. The payment and the amount of any future dividends will be at the discretion of our Directors and will depend upon our Group's future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors which our Directors deem relevant. Any final dividend for a financial year will be subject to Shareholders' approval. Shareholders will be entitled to receive such dividends pro rata according to the amounts paid up or credited as paid up on the Shares.

Dividends may be paid only out of our Company's distributable profits as permitted under the relevant laws. There can be no assurance that our Company will be able to declare or distribute in the amount set out in any plan of our Board or at all. The past dividend distribution record may not be used as a reference or basis to determine the level of dividends that may be declared or paid by our Company in the future.

FINANCIAL INFORMATION

KEY FINANCIAL RATIOS

The following table sets out the key financial ratios of the Group during the Track Record Period:

	Year ended/ as at 31 December	
	2016	2017
Return on total assets (<i>Note 1</i>)	2.2%	2.2%
Return on equity (<i>Note 2</i>)	14.8%	12.4%
Current ratio (<i>Note 3</i>)	0.8 times	1.0 times
Quick ratio (<i>Note 4</i>)	0.7 times	0.9 times
Gearing ratio (<i>Note 5</i>)	288.1%	273.1%
Debt to equity ratio (<i>Note 6</i>)	327.8%	214.2%
Interest coverage (<i>Note 7</i>)	2.1 times	2.3 times

Notes:

1. Return on total assets is calculated by dividing net profit for the year by the total assets at the end of the respective year and expressed as a percentage.
2. Return on equity is calculated by dividing net profit attributable to the owners of our Company for the year by the total equity attributable to the owners of our Company at the end of the respective year and expressed as a percentage.
3. Current ratio is calculated by dividing the total current assets by the total current liabilities as at the year-end date.
4. Quick ratio is calculated by dividing total current assets net of inventories by current liabilities as at the year-end date.
5. Gearing ratio is calculated by dividing all debts by total equity at the year-end date and expressed as a percentage.
6. Debt to equity ratio is calculated by dividing all debts net of cash and cash equivalents and pledged bank deposits at the end of the year by total equity at the end of the respective year and expressed as a percentage.
7. Interest coverage is calculated by the profit before interest and tax divided by the interest for the year.

Return on total assets

Our return on total assets were relatively stable at 2.2% for the year ended 31 December 2016 and approximately 2.2% for the year ended 31 December 2017. By excluding the Extraordinary Items, our adjusted return on total assets increased from approximately 2.2% for the year ended 31 December 2016 to approximately 3.4% for the year ended 31 December 2017 principally due to the increase in our Adjusted Net Profit Margin for the same years.

FINANCIAL INFORMATION

Return on equity

Our return on equity decreased from approximately 14.8% for the year ended 31 December 2016 to approximately 12.4% for the year ended 31 December 2017. By excluding the Extraordinary Items, our adjusted return on equity increased from approximately 14.3% for the year ended 31 December 2016 to approximately 19.7% for the year ended 31 December 2017 principally due to the same reasons for the increase in our adjusted return on total assets as disclosed above.

Current ratio and quick ratio

Our current ratio and quick ratio were relatively stable and slightly improved from approximately 0.8 times as at 31 December 2016 to approximately 1.0 times as at 31 December 2017 and from approximately 0.7 times as at 31 December 2016 to approximately 0.9 times as at 31 December 2017 respectively principally due to the turnaround of our net current liabilities position to net current assets position in the same year.

Gearing ratio and debt to equity ratio

Though the aggregate balance of our bank overdrafts and borrowings increased from 31 December 2016 to 31 December 2017, our gearing ratio slightly improved from approximately 288.1% to approximately 273.1% in the same year principally due to the larger extent of increase in our equity in the same year.

Alongside with the slight improvement in our gearing ratio, our debt to equity ratio also improved from approximately 327.8% as at 31 December 2016 to approximately 214.2% as at 31 December 2017.

Interest coverage

Our interest coverage ratio increased from approximately 2.1 times as at 31 December 2016 to approximately 2.3 times as at 31 December 2017. By excluding the Extraordinary Items, our adjusted interest coverage ratio increased from approximately 2.1 times for the year ended 31 December 2016 to approximately 2.8 times for the year ended 31 December 2017 principally due to the increase in our adjusted profit before interest and tax in the same period.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

Please refer to the paragraph headed “Financial instruments – Financial risk management objectives and policies – Market risk” in note 40 of the notes to the Accountants’ Report in Appendix I to this prospectus.

DISCLOSURE REQUIRED UNDER THE GEM LISTING RULES

The Directors have confirmed that as at the Latest Practicable Date, they were not aware of any circumstances which could give rise to a disclosure obligation pursuant to Rules 17.15 to 17.21 of the GEM Listing Rules.

FINANCIAL INFORMATION

LISTING EXPENSES

Assuming an Offer Price of HK\$0.25 (being the mid-point of the indicated Offer Price range), the total amount of listing expenses in connection with the Share Offer is estimated to be approximately HK\$26.9 million, of which approximately HK\$4.8 million has been charged to our profit or loss for the year ended 31 December 2017. Our Group estimates that listing expenses of approximately HK\$12.4 million will be charged to our profit or loss for the year ending 31 December 2018. The balance of approximately HK\$9.6 million which is directly attributable to the issue of the Offer Shares is expected to be accounted for as a deduction from equity upon Listing. Expenses in relation to the Listing are non-recurring in nature. Nevertheless, the financial results of our Group for the year ended 31 December 2018 are expected to be adversely affected by the listing expenses and our Group is expected to record net loss for the year ended 31 December 2018 after taking into account the listing expenses. The amount of listing expenses is a current estimate for reference only and the final amount to be recognised to the consolidated statement of comprehensive income of our Group for the years ending 31 December 2018 is subject to audit and the actual changes in variables and assumptions.

DISTRIBUTABLE RESERVES

Our Company was incorporated on 12 June 2017 and is an investment holding company. There were no reserves available for distribution to the Shareholders as of the Latest Practicable Date.

UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

Please refer to Appendix II – “Unaudited Pro Forma Financial Information” for details.

PROPERTY INTERESTS AND PROPERTY VALUATION

Asset Appraisal Limited, an independent property valuer, has valued our investment properties as at 30 April 2018. The texts of its letter and valuation certificate are set out in Appendix III to this prospectus. A reconciliation of the fair value of our investment properties as at 31 December 2017 (as stated in the Accountants’ Report as set out in Appendix I to this prospectus) to their fair value as at 30 April 2018 (as stated in “Appendix III – Valuation Report” to this prospectus) is considered not necessary as there were no change in the market value of our investment properties between 31 December 2017 to 30 April 2018.

SUBSEQUENT EVENTS

For significant events that took place subsequent to 31 December 2017, please refer to Part IV to the Accountants’ Report set forth in Appendix I to this prospectus.

MATERIAL ADVERSE CHANGE

Our Directors confirm that, up to the date of this prospectus, other than the Listing expenses, which we expect would adversely affect our profit for the year ending 31 December 2018, there has been no material adverse change in our Group’s financial and trading position since 31 December 2017 and there is no event since 31 December 2017 which would materially affect the information shown in the Accountants’ Report set out in Appendix I to this prospectus.

FUTURE PLANS AND USE OF PROCEEDS

BUSINESS OBJECTIVES AND STRATEGIES

Please see the section headed “Business – Our business strategies and expansion plans” in this prospectus for a detailed description of our future plans.

REASONS FOR THE SHARE OFFER AND USE OF PROCEEDS

As at 30 April 2018, our level of cash on hand (excluding pledged bank deposits) was only approximately HK\$7.6 million and our net current assets was only approximately HK\$1.3 million. We also had the relatively high level of short term (less than one year) borrowings of approximately HK\$37.7 million and gearing ratio and majority of our unutilised banking facilities was trade nature and therefore could not be used for other purposes. In light of the total amount of fund required to carry out our business strategies will be as high as approximately HK\$35.1 million, the net proceeds from the Share Offer shall provide us the source of funding without materially adversely affecting our current financial position. Our Directors considered that the Listing represents a good opportunity for our Group to tap into the capital market which provides another fund-raising platform to assist our actual and practical needs for our future business development plan and further strengthen our competitiveness. Our Directors also believe that our customers prefer doing business with a listed company to a private company given the former’s generally greater transparency and regulatory supervision, and a listing status facilitates us to expand our clientele and increase our suppliers’ and customers’ confidence which may be attached to our proven track record, greater transparency in financial disclosures, higher standard of internal controls and corporate governance, enhancing our corporate profile, image and credibility, which in turn strengthening our competitiveness. As a listed company, we believe that we are also able to retain management and technical personnel and to hire suitable talents by offering more competitive salary packages.

IMPLEMENTATION PLANS

Our Group’s implementation plans are set forth below for each of the six-month periods upon Listing and up to 30 June 2020. Investors should note that the implementation plan is drawn up based on the current economic status and the assumptions as set out in the paragraph headed “Bases and assumptions” of this section. These bases and assumptions are inherently subject to many uncertainties and unpredictable factors, in particular the risk factors as set out in the section headed “Risk factors” of this prospectus. Therefore, there is no assurance that our business plans will materialise in accordance with the estimated time frame and that our future plans will be accomplished at all.

FUTURE PLANS AND USE OF PROCEEDS

Upon Listing to 31 December 2018

Business strategies	Use of proceeds (HK\$'000)	Implementation plan
Repayment of bank loan	7,422	Repayment of (i) one term loan which is to be matured in March 2021 and bearing interest rate of the bank's prime rate minus 0.25% per annum which was utilised by us as our general working capital and (ii) two insurance loans which are to be matured in October 2020 and bearing interest rate of the bank's best lending rate minus 0.5% per annum and was utilised by us to purchase two insurance policies.

For the six months ending 30 June 2019

Business strategies	Use of proceeds (HK\$'000)	Implementation plan
Expansion of e-commerce customer base	300	Payroll for a new marketing staff
	80	Payroll for a new graphic designer
	63	Payroll for a new product engineer
	71	Payroll for a new R&D staff
	249	Purchase of hardware & software for new staff
Strengthening of design capabilities	2,200	Purchase of a new metal 3D printer

FUTURE PLANS AND USE OF PROCEEDS

For the six months ending 31 December 2019

Business strategies	Use of proceeds (HK\$'000)	Implementation plan
Acquisition of new production facilities	18,880	Acquisition cost for a new factory
	3,186	Renovation cost
	708	Relocation fee and other miscellaneous expenses
Expansion of e-commerce customer base	450	Payroll for three new marketing staff
	159	Payroll for two graphic designers
	126	Payroll for two product engineers
	142	Payroll for two R&D staff
	223	Purchase of hardware & software for new staff

For the six months ending 30 June 2020

Business strategies	Use of proceeds (HK\$'000)	Implementation plan
Expansion of e-commerce customer base	450	Payroll for three new marketing staff
	159	Payroll for two graphic designers
	126	Payroll for two product engineers
	142	Payroll for two R&D staff

Bases and assumptions

The business objectives and strategies set out by our Directors are based on the following general bases and assumptions:

- our Group will have sufficient financial resources to meet the planned capital expenditure and business development requirements during the period to which the business objectives relate;
- there will be no significant economic change in respect of inflation, interest rate, tax rate and currency exchange rate in Hong Kong and the PRC which will adversely affect our Group's business;
- there will be no material adverse changes in the existing laws and regulations, policies or industry or regulatory treatment relating to our Group, or in the political, economic, fiscal or market conditions in which our Group operates;

FUTURE PLANS AND USE OF PROCEEDS

- we will be able to retain our directors, senior management team and key staff in our operations;
- the Group is able to retain its customers, suppliers and subcontractors;
- there will be no disasters, natural, political or otherwise, which would materially disrupt the business or operations of our Group or cause substantial loss, damage or destruction to our properties; and
- our Group will not be adversely affected by the risk factors as set out under the section headed “Risk factors” of this prospectus.

We estimate that the aggregate net proceeds to us from the Share Offer, after deducting related underwriting fees and estimated expenses in connection with the Share Offer, assuming an Offer Price of HK\$0.25 per Share (being the mid-point of the Offer Price range of HK\$0.23 to HK\$0.27), will be approximately HK\$35.6 million. Our Directors presently intend to apply such net proceeds as follows:

	Upon Listing to 31 December 2018 <i>HK\$'000</i>	For the six months ending 30 June 2019 <i>HK\$'000</i>	For the six months ending 31 December 2019 <i>HK\$'000</i>	For the six months ending 30 June 2020 <i>HK\$'000</i>	Total <i>HK\$'000</i>	Percentage of use of net proceeds %
Acquisition of new production facilities	–	–	22,774	–	22,774	63.9
Expansion of e-commerce customer base	–	762	1,100	877	2,739	7.7
Strengthening of design capabilities	–	2,200	–	–	2,200	6.2
Repayment of bank loan	7,422	–	–	–	7,422	20.8
Working capital	120	120	120	120	480	1.3
Total	7,542	3,082	23,994	997	35,615	100.0

The above total use amount represents our total capital expenditure for each of our strategies upon Listing and up to 30 June 2020. To the extent that the net proceeds are not sufficient to fund the purposes as set forth above, we intend to fund the balance through a variety of means, including cash generated from operations, bank loans and other borrowing, as appropriate. Any capital expenditure for each of our strategies after 30 June 2020 will be financed by our internal funding.

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

FUTURE PLANS AND USE OF PROCEEDS

offer price range stated in this prospectus. If the Offer Price is fixed at the high-end of the indicative Offer Price range, being HK\$0.27 per Offer Share, the net proceeds we receive from the Share Offer will increase by approximately HK\$4.6 million. If the Offer Price is set at the low-end of the indicative Offer Price range, being HK\$0.23 per Offer Share, the net proceeds we receive from the Share Offer will decrease by approximately HK\$4.6 million.

To the extent that the net proceeds from the Share Offer are not immediately required for the purposes above, it is the present intention of our Directors that such net proceeds will be placed on short-term interest bearing deposits with authorised financial institutions in Hong Kong.

Should our Directors decide to re-allocate the intended use of proceeds to other business plans and/or new project of our Group to a material extent and/or there is to be any material modification to the use of proceeds as described above, our Group will issue an announcement in accordance with the GEM Listing Rules.

UNDERWRITING

PUBLIC OFFER UNDERWRITER(S)

Alpha Financial Group Limited
Bluemount Securities Limited
TC Capital International Limited
Astrum Capital Management Limited
Quasar Securities Co., Limited
Well Link Securities Limited
Fruit Tree Securities Limited
Wellington Financial Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

The Public Offer

The Public Offer Underwriting Agreement

Pursuant to the Public Offer Underwriting Agreement, our Company is offering initially 25,000,000 Public Offer Shares for subscription by the public in Hong Kong at the Offer Price on and subject to the terms and conditions in the Public Offer Underwriting Agreement and this prospectus.

The Public Offer Underwriting Agreement is conditional upon and subject to, among others, the Placing Underwriting Agreement becoming unconditional and not having been terminated in accordance with its terms.

Subject to, among other conditions, the Stock Exchange granting the listing of, and permission to deal in, our Shares in issue and to be issued as mentioned in this prospectus (including any Shares which may fall to be issued pursuant to the Capitalisation Issue and options that may be granted under the Share Option Scheme) and to certain other conditions set out in the Public Offer Underwriting Agreement being fulfilled or waived on or before the dates and times specified in the Public Offer Underwriting Agreement, the Public Offer Underwriter(s) have agreed to subscribe or procure subscribers for the Public Offer Shares on the terms and conditions of the Public Offer Underwriting Agreement and this prospectus.

Grounds for Termination

The obligations of the Public Offer Underwriter(s) to subscribe or procure subscribers for the Public Offer Shares are subject to termination if certain events, including force majeure, shall occur at any time at or before 8:00 a.m. (Hong Kong time) on the Listing Date. The Joint Lead Managers (for themselves and on behalf of the Underwriters) shall have the right, in their sole and absolute discretion, to terminate the Public Offer Underwriting Agreement with immediate effect by notice in writing given to our Company at any time prior to 8:00 a.m.

UNDERWRITING

(Hong Kong time) on the Listing Date (the “**Termination Time**”), if any of the following events shall occur prior to the Termination Time:

- (a) the Joint Lead Managers or any of the Public Offer Underwriters shall become aware of the fact that, or have cause to believe that:
 - (1) that any statement contained in any offer documents and/or any notices, announcements, advertisements, communications or other documents issued or used by or on behalf of our Company in connection with the Share Offer (including any supplement or amendments thereto) (collectively, the “**Relevant Documents**”) was, when it was issued, or has become untrue, incorrect, inaccurate, misleading or deceptive in any respect or that any forecast, expression of opinion, intention or expectation expressed in any of the Relevant Documents is not, in the sole and absolute opinion of the Joint Lead Managers (for themselves and on behalf of the Underwriters), fair and honest and based on reasonable assumptions, when taken as a whole; or
 - (2) that any matter has arisen or has been discovered which would or might, had it arisen or been discovered immediately before the respective dates of the publication of the Relevant Documents, constitute an omission therefrom; or
 - (3) any breach of any of the obligations imposed or to be imposed upon any party to the Public Offer Underwriting Agreement or the Placing Underwriting Agreement (in each case, other than on the part of any of the Underwriters); or
 - (4) any event, act or omission which gives or is likely to give rise to any liability of any of our Company, our Controlling Shareholders, and executive Directors (the “**Warrantors**”) under the Public Offer Underwriting Agreement or the Placing Underwriting Agreement; or
 - (5) any change or development involving a prospective change in the assets, liabilities, general affairs, management, business prospects, shareholders’ equity, profits, losses, results of operations, position or conditions (financial, trading or otherwise) or performance of any member of our Group; or
 - (6) any breach of, or any event or circumstance rendering untrue, incorrect, inaccurate, misleading or deceptive in any respect, any of the warranties as set out in the Public Offer Underwriting Agreement; or
 - (7) the approval by the Stock Exchange of the listing of, and permission to deal in, the Shares is refused or not granted, or is qualified (other than subject to customary conditions), on or before the Listing Date, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or

UNDERWRITING

- (8) our Company withdraws any of the Relevant Documents or the Share Offer; or
 - (9) any person (other than the Joint Lead Managers of any of the Public Offer Underwriters) has withdrawn or sought to withdraw its consent to being named in any of the offer documents or to the issue of any of the offer documents; or
 - (10) that a petition or an order is presented for the winding-up or liquidation of any member of our Group or any member of our Group makes any composition or arrangement with its creditors or enters into a scheme of arrangement or any resolution is passed for the winding-up of any member of our Group or a provisional liquidator, receiver or manager is appointed to take over all or part of the assets or undertaking of any member of our Group or anything analogous thereto occurs in respect of any member of our Group; or
 - (11) an authority or a political body or organisation in any relevant jurisdiction has commenced any investigation or other action, or announced an intention to investigate or take other action, against any of our Directors as set out in the section headed “Directors, senior management and staff” of this prospectus; or
 - (12) any loss or damage has been sustained by any member of our Group (howsoever caused and whether or not the subject of any insurance or claim against any person) which is considered by the Joint Lead Managers (for themselves and on behalf of the Underwriters) in their sole and absolute opinion to have a material adverse effect, in the condition (financial, operational or otherwise), on the due incorporation, or in the earnings, affairs or prospects, assets or liabilities of our Group as a whole, whether or not arising in the ordinary course of business; or
- (b) there shall develop, occur, exist or come into effect:
- (1) any local, national, regional, international event or circumstance, or series of events or circumstances, beyond the reasonable control of the Underwriters (including, without limitation, any acts of government or orders of any courts, strikes, calamity, crisis, lock-outs, fire, explosion, flooding, civil commotion, acts of war, outbreak or escalation of hostilities (whether or not war is declared), acts of God, acts of terrorism, declaration of a local, regional, national or international emergency, riot, public disorder, economic sanctions, outbreaks of diseases, pandemics or epidemics (including, without limitation, Severe Acute Respiratory Syndrome, avian influenza A (H5N1), Swine Flu (H1N1), Middle East Respiratory Syndrome or such related or mutated forms) or interruption or delay in transportation) in or affecting Hong Kong, the PRC, the Cayman Islands, the BVI or any other jurisdiction relevant to the business and operations of any member of our Group (collectively, the “**Specific Jurisdictions**”); or
 - (2) any change or development involving a prospective change or development, or any event or circumstance or series of events or circumstances resulting or representing or likely to result in any change or development involving a

UNDERWRITING

- prospective change or deterioration (whether or not permanent), in any local, regional, national or international financial, economic, political, military, industrial, fiscal, legal, regulatory, fiscal, currency, credit or market conditions (including, without limitation, conditions in stock and bond markets, money and foreign exchange markets, the interbank markets and credit markets) in or affecting any of the Specific Jurisdictions; or
- (3) any moratorium, suspension or restriction on trading in securities generally (including, without limitation, any imposition of or requirement for any minimum or maximum price limit or price range) on the Stock Exchange, the New York Stock Exchange, the London Stock Exchange, the Nasdaq Global Market, the Shanghai Stock Exchange, the Shenzhen Stock Exchange, the Singapore Stock Exchange and the Tokyo Stock Exchange; or
 - (4) any new laws, or any change or development involving a prospective change in existing laws, or any event or circumstance or series of events or circumstances likely to result in any change or development involving a prospective change in the interpretation or application of existing laws by any court or other competent authority, in each case, in or affecting any of the Specific Jurisdictions; or
 - (5) any general moratorium on commercial banking activities in Hong Kong (imposed by the Financial Secretary or the Hong Kong Monetary Authority or other competent authority), the PRC, the Cayman Islands, the BVI or any other Specific Jurisdictions, or any disruption in commercial banking activities, foreign exchange trading or securities settlement or clearance services or procedures or matters, in or affecting any of the Specific Jurisdictions; or
 - (6) a change or development or event involving a prospective change in taxation or exchange control (or in the implementation of any exchange control), currency exchange rates or foreign investment laws (including, without limitation, any change in the system under which the value of the Hong Kong currency is linked to that of the currency of the United States or a material fluctuation in the exchange rate of the Hong Kong dollar or the Renminbi against any foreign currency) in or affecting any of the Specific Jurisdictions or affecting an investment in the Shares; or
 - (7) the imposition of economic or other sanctions, in whatever form, directly or indirectly, in or affecting any of the Specific Jurisdiction; or
 - (8) any change or development involving a prospective change, or a materialisation of, any of the risks set out in the section headed “Risk Factors” in this prospectus; or
 - (9) any litigation or claim of any third party being threatened or instigated against any member of our Group or any of the warrantors; or

UNDERWRITING

- (10) any of our Directors as set out in the “Directors, senior management and staff” section in this prospectus being charged with an indictable offence or prohibited by operation of law or otherwise disqualified from taking part in the management of a company; or
- (11) the chairman or chief executive officer of our Company vacating his or her office; or
- (12) the commencement by any governmental, regulatory or political body or organisation in any of the Specific Jurisdictions of any action against a Director or an announcement by any governmental, regulatory political or judicial body or organisation in any of the Specific Jurisdictions that it intends to take any such action; or
- (13) a contravention by any member of our Group or any Director of the GEM Listing Rules or applicable laws; or
- (14) a prohibition on our Company for whatever reason from allotting, issuing or selling the Offer Shares pursuant to the terms of the Share Offer; or
- (15) non-compliance of this prospectus and the other relevant documents or any aspect of the Share Offer with the GEM Listing Rules or any other applicable laws; or
- (16) the issue or requirement to issue by our Company of a supplement or amendment to this prospectus and/or any other documents in connection with the Share Offer pursuant to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the GEM Listing Rules or any requirement or request of the Stock Exchange and/or SFC, unless such supplement or amendment has been issued with the prior written approval of the Sole Sponsor and/or the Joint Lead Managers (for themselves and on behalf of the Underwriters); or
- (17) any matter or event resulting in a breach of any of the warranties, representations or undertakings contained in the Hong Kong Underwriting Agreement as there has been a material breach of any other provisions thereof; or
- (18) a demand by any creditor for repayment or payment of any indebtedness of any member of our Group or in respect of which any member of our Group is liable prior to its stated maturity, which in each case individually or in aggregate in the sole and absolute opinion of the Joint Lead Managers (for themselves and on behalf of the Underwriters):
 - (i) has or is or will or may or could be expected to have an adverse effect on the assets, liabilities, business, general affairs, management, shareholders’ equity, profits, losses, results of operation, financial, trading or other

UNDERWRITING

condition or prospects or risks of our Company or any member of our Group or our Group as a whole or on any present or prospective shareholder of our Company in his, her or its capacity as such; or

- (ii) has or will or may have or could be expected to have an adverse effect on the success, marketability or pricing of the Share Offer or the level of applications under the Public Offer or the level of interest under the Placing; or
- (iii) makes or will make or may make it inadvisable, inexpedient or impracticable for any part of the Public Offer Underwriting Agreement or the Share Offer to be performed or implemented or proceeded with as envisaged or to market the Share Offer or shall otherwise result in an interruption to or delay thereof; or
- (iv) has or will or may have the effect of making any part of the Public Offer Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms or which prevents the processing of applications and/or payments pursuant to the Share Offer or pursuant to the underwriting thereof.

Undertakings

Undertakings by our Company pursuant to the GEM Listing Rules

We have undertaken to the Stock Exchange that (except pursuant to the Share Offer) at any time during the period commencing on the date of this prospectus and ending on the expiry of the six-month period after the Listing Date, our Company will not, without the prior consent of the Stock Exchange and unless in compliance with the requirements of the GEM Listing Rules, allot or issue or agree to allot or issue any Shares or securities convertible into equity securities of our Company (including warrants or other convertible securities), whether or not of a class already listed, and whether or not such issue of Shares or securities will be completed within 6 months for the commencement of dealing, except in certain circumstances prescribed by Rule 17.29 of the GEM Listing Rules.

Undertakings by our Company pursuant to the Public Offer Underwriting Agreement

We have also undertaken to the Sole Sponsor, the Joint Lead Managers and the Public Offer Underwriters under the Public Offer Underwriting Agreement that, and each of our Company, our Controlling Shareholders and our executive Directors have undertaken to procure, that:

- (a) except pursuant to the Share Offer and the exercise of any options granted or to be granted under the Share Option Scheme during the period commencing on the date of the Public Offer Underwriting Agreement and ending on, and including, the date that is six months after the Listing Date (the “**First Six-Month Period**”), our Company

UNDERWRITING

will not, without the prior written consent of the Sole Sponsor and the Joint Lead Managers (for themselves and on behalf of the Underwriters) and unless in compliance with the requirements of the GEM Listing Rules:

- (1) allot, issue, sell, accept subscription for, offer to allot, issue or sell, contract or agree to allot, issue or sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to subscribe for or purchase, grant or purchase any option, warrant, contract or right to allot, issue or sell, or otherwise transfer or dispose of, or agree to transfer or dispose of, either directly or indirectly, conditionally or unconditionally, any Shares or other securities of our Company, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any other warrants or other rights to purchase, any Shares, as applicable), or deposit any Shares or other securities of our Company, as applicable, with a depositary in connection with the issue of depositary receipts; or repurchase any Shares or other securities of our Company, as applicable; or
- (2) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any shares or other securities of our Company, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represents the right to receive, or any warrants or other rights to purchase, any Shares or other securities of our Company, as applicable); or
- (3) enter into any transaction with the same economic effect as any transaction described in (1) or (2) above; or
- (4) offer to or agree to or announce any intention to effect any transaction described in (1), (2) or (3) above,

in each case, whether any of the transactions described in (1), (2) or (3) is to be settled by delivery of Shares or other securities of our Company, as applicable, or in cash or otherwise (whether or not the issue of such Shares or other shares or securities will be completed within the First Six-Month Period);

- (b) our Company will not, and will procure each other member of the Group not to, enter into any of the transactions specified in (1), (2) or (3) above or offer to or agree to or announce any intention to effect any such transaction, such that our Controlling Shareholder would cease to be a controlling shareholder (as defined in the GEM Listing Rules) of our Company during the period of six months immediately following the expiry of the First Six-Month Period (the “**Second Six-Month Period**”); and

UNDERWRITING

- (c) in the event that, during Second Six-Month Period, our Company enters into any of the transactions specified in (1), (2) or (3) above or offers to or agrees to or announces any intention to effect any such transaction, our Company shall take all reasonable steps to ensure that it will not create a disorderly or false market in any Shares or other securities of our Company or any interest therein.

Undertakings by our Controlling Shareholders pursuant to the GEM Listing Rules

Under Rule 13.16A(1) of the GEM Listing Rules, each of our Controlling Shareholders has undertaken to the Stock Exchange, our Company and the Sole Sponsor that except pursuant to the Share Offer they shall not, and shall procure that the relevant registered holder(s) shall not (i) in the period commencing on the date by reference to which disclosure of the shareholding of our Controlling Shareholders is made in this prospectus and ending on the date which is 12 months from the Listing Date (the “**First 12-Month Period**”), dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of our securities in respect of which he is or they are shown by this prospectus to be the beneficial owner(s); or (ii) in the period of 12 months commencing on the date on which the period referred to in paragraph (i) above expires (the “**Second 12-Month Period**”), dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of our securities referred to in paragraph (i) above if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, he or she or they would then cease to be our Company’s Controlling Shareholders (as defined under the GEM Listing Rules).

Note to Rule 13.16A(1) of the GEM Listing Rules provides that our Controlling Shareholder(s) is/are free to purchase additional securities and dispose of securities thus purchased in the period commencing on the date by reference to which disclosure of the shareholding of the Controlling Shareholders is made in this prospectus and ending on the date which is 24 months from the Listing Date, subject to compliance with the requirements of Rule 11.23 of the GEM Listing Rules to maintain an open market in the securities and a sufficient public float.

Under Rule 13.19 of the GEM Listing Rules, each of our Controlling Shareholders has also undertaken to the Stock Exchange, our Company and the Sole Sponsor that (i) in the event that our Controlling Shareholders or any of their close associates pledges or charges any direct or indirect interest in the relevant Shares under Rule 13.18(1) of the GEM Listing Rules or pursuant to any right or waiver granted by the Stock Exchange pursuant to Rule 13.18(4) of the GEM Listing Rules, at any time during the period commencing on the date of this prospectus and ending on the date which is 24 months from the Listing Date, he/she/it must inform our Company and the Sole Sponsor immediately thereafter, disclosing the details specified in Rule 17.43(1) to (4) of the GEM Listing Rules; and (ii) having pledged or charged any interest in Shares under (i) above, he/she/it must inform our Company and the Sole Sponsor immediately in the event that he/she/it becomes aware that the pledgee or chargee has disposed of or intends to dispose of such interest and of the number of Shares affected.

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Undertakings by our Controlling Shareholders pursuant to the Public Offer Underwriting Agreement

Our Controlling Shareholders have undertaken to our Company and the Joint Lead Managers (and the Public Offer Underwriters) under the Public Offer Underwriting Agreement, that he/she/it will not, without the prior written consent of the Joint Lead Managers (for themselves and on behalf of the Underwriters), directly or indirectly, and shall perceive that none of his or its associates or companies controlled by him or her or it or any nominee or trustee holding in trust for him or her or it shall, and unless in compliance with the GEM Listing Rules:

- (a) at any time during the First 12-Month Period offer, pledge, charge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase for, lend or otherwise transfer or dispose of (nor enter into any agreement to transfer or dispose of or otherwise create any options, rights, interests or encumbrances in respect of), either directly or indirectly, conditionally or unconditionally, any of the share capital, debt capital or other securities of our Company or any interest therein held by him/her or it or any voting right or any other right attaching thereto (including, but not limited to any securities that are convertible into or exercisable or exchangeable for, or that represent the right to receive, any such share capital or other securities of our Company or any interest therein) whether currently held or enter into any swap or other arrangement that transfers, in whole or in part, any of the economic consequences of ownership of such share capital or securities or any interest therein or any voting right or any other right attaching thereto, whether any of the foregoing transactions is to be settled by delivery of share capital or such other securities, in cash or otherwise, or offer to or agree or contract to do any of the foregoing or announce any intention to do so, provided that the restriction shall not apply to any pledge or charge of Shares by our Controlling Shareholders in favour of an authorised institution as defined in the Banking Ordinances (Chapter 155 of the Laws of Hong Kong) for a bona fide commercial loan in accordance with the GEM Listing Rules;
- (b) at any time during the Second 12-Month Period enter into any of the transactions described in (a) above if, immediately following such transaction, he, she or it would cease to be the controlling shareholder (as defined in the GEM Listing Rules) of our Company, provided that the restriction shall not apply to any pledge or charge of Shares by our Controlling Shareholders in favour of an authorised institution as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) for a bona fide commercial loan in accordance with the GEM Listing Rules; and
- (c) in the event of a disposal by him, her or it of any share capital or any interest therein or any voting right or any other right attaching thereto during the period referred to in (b) above, he, she or it will take all reasonable steps to ensure that such a disposal will not create a disorderly or false market for our Shares or other securities of our Company or any interest therein.

UNDERWRITING

Indemnity

Our Company, our Controlling Shareholders and our executive Directors have agreed to indemnify the Sole Sponsor, the Joint Lead Managers and the Public Offer Underwriters from certain losses which they may suffer, including losses arising from, among others, their performance of their obligations under the Public Offer Underwriting Agreement and any breach by our Company or our Controlling Shareholders or our executive Directors of the Public Offer Underwriting Agreement.

The Placing

The Placing Underwriting Agreement

In connection with the Placing, our Controlling Shareholders, our executive Directors and our Company expect to enter into the Placing Underwriting Agreement with the Sole Sponsor, the Joint Lead Managers and the Placing Underwriters, on the terms and conditions that are substantially similar to the Public Offer Underwriting Agreement as described above and on the additional terms described below.

Under the Placing Underwriting Agreement, subject to the conditions set forth therein, the Placing Underwriter(s) are expected to agree to procure subscribers to subscribe for, or failing which it shall subscribe for, 225,000,000 Placing Shares initially being offered pursuant to the Placing.

It is expected that the Placing Underwriting Agreement may be terminated on similar grounds as the Public Offer Underwriting Agreement. Potential investors shall be reminded that in the event that the Placing Underwriting Agreement is not entered into, the Share Offer will not proceed. The Placing Underwriting Agreement is conditional on and subject to the Public Offer Underwriting Agreement having been executed, becoming unconditional and not having been terminated. It is expected that pursuant to the Placing Underwriting Agreement, (i) our Company and (ii) each of our Controlling Shareholders will make similar undertakings as those given pursuant to the Public Offer Underwriting Agreement as described in the paragraph headed “Undertakings” in this section.

It is expected that each of our Controlling Shareholders will undertake to the Placing Underwriter(s) not to dispose of, or enter into any agreement to dispose of, or otherwise create any options, rights, interest or encumbrances in respect of any of the Shares held by him/her/it in our Company for a period similar to that given by them pursuant to the Public Offer Underwriting Agreement as described in the paragraph headed “Undertakings” in this section.

Under the Placing Underwriting Agreement, our Company, our Controlling Shareholders and our executive Directors will agree to indemnify the Sole Sponsor, the Joint Lead Managers and the Placing Underwriters against certain losses which they may suffer including losses as a result of certain claims or liabilities which might be incurred by the Sole Sponsor, the Joint Lead Managers and the Placing Underwriters.

UNDERWRITING

Fees, Commission and Expenses

The Public Offer Underwriters will receive an underwriting commission of 3.5% of the aggregate Offer Price payable for the Public Offer Shares in accordance with the terms of the Public Offer Underwriting Agreement, out of which sub-underwriting commission and/or praecipium fees in connection with the Share Offer may be paid. The Placing Underwriters are expected to receive an underwriting commission on the aggregate Offer Price payable for the Placing Shares. We will bear the underwriting commissions, SFC transaction levy and the Stock Exchange trading fee payable by us in connection with the issue of the new Shares together with any applicable fees relating to the Share Offer. In addition, we may, at each of our sole discretion, pay the Joint Lead Managers an additional incentive fee for all the Shares offered and sold in the Share Offer.

The aggregate commissions and fees, together with the listing fees, SFC transaction levy, the Stock Exchange trading fee, legal and other professional fees, printing and other expenses payable by us relating to the Share Offer are estimated to amount to approximately HK\$26.9 million in total (based on the mid-point of our indicative price range for the Share Offer, being HK\$0.25 per Offer Share).

UNDERWRITERS' INTEREST IN OUR COMPANY

Save as provided for under the Underwriting Agreements, the Underwriters do not have any shareholding interests in any member of our Group nor have any right or option to subscribe for or nominate persons to subscribe for any Shares.

SPONSOR AND ITS INDEPENDENCE

TC Capital International Limited as the Sole Sponsor satisfies the independence criteria applicable to sponsors as set out in Rule 6A.07 of the GEM Listing Rules.

COMPLIANCE ADVISER'S AGREEMENT

The Sole Sponsor has been appointed as the compliance adviser of our Company with effect from the Listing Date until dispatch of the audited consolidated financial results for the second full financial year after the Listing Date.

SPONSOR'S INTERESTS IN OUR COMPANY

Save for (i) the advisory, documentation and arrangement fees to be paid to the Sole Sponsor as the sponsor to the Listing; (ii) the fee to be paid to the Sole Sponsor as our Company's compliance adviser pursuant to the requirements under Rules 6A.19 of the GEM Listing Rules, neither the Sole Sponsor nor any of its close associates has or may have, as a result of the Share Offer, any interest in any class of securities in our Company or any of its subsidiaries (including options or rights to subscribe for such securities).

UNDERWRITING

No director or employee of the Sole Sponsor who is involved in providing advice to our Company has or may have, as a result of the Share Offer, any interest in any class of securities of our Company or any of our subsidiaries (including options or rights to subscribe for such securities that may be subscribed for or purchased by any such director or employee pursuant to the Share Offer). No director or employee of the Sole Sponsor has a directorship in our Company or any of our subsidiaries.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

This prospectus is published in connection with the Public Offer as part of the Share Offer. The Share Offer consists of:

- (a) the Public Offer of 25,000,000 Shares (subject to reallocation as mentioned below) as described under the paragraph headed “The Public Offer” in this section; and
- (b) the Placing of 225,000,000 Shares (subject to reallocation as mentioned below) as described under the paragraph headed “The Placing” in this section.

Investors may apply for the Public Offer Shares under the Public Offer or indicate an interest, if qualified to do so, for the Placing Shares under the Placing, but may not do both.

The Offer Shares will represent approximately 25% of the enlarged total number of issued shares of the Company immediately after completion of the Share Offer.

The number of Offer Shares to be offered under the Public Offer and the Placing respectively may be subject to reallocation as described in the paragraph headed “The Public Offer – Reallocation” below in this section.

OFFER PRICE

Offer Price

The Offer Price will be not more than HK\$0.27 per Offer Share and is expected to be not less than HK\$0.23 per Offer Share, unless otherwise announced. Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative Offer Price range stated in this prospectus.

Price payable on application

Applicants under the Public Offer must pay, on application, the maximum indicative Offer Price of HK\$0.27 per Public Offer Share plus 1% brokerage, a 0.0027% SFC transaction levy and a 0.005% Stock Exchange trading fee, amounting to a total of HK\$2,727.21 for one board lot of 10,000 Shares. If the Offer Price as finally determined in the manner described below is less than HK\$0.27 per Public Offer Share, appropriate refund payments (including the brokerage, SFC transaction levy and the Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applicants without interest.

Determining the Offer Price

The Placing Underwriter(s) are soliciting from prospective investors indications of interest in acquiring the Offer Shares in the Placing. Prospective investors will be required to specify the number of Offer Shares under the Placing they would be prepared to acquire either at different

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

prices or at a particular price. This process, known as “book-building”, is expected to continue up to, and to cease on or around the last day for lodging applications under the Public Offer.

The Offer Price is expected to be fixed by agreement between the Joint Bookrunners (for themselves and on behalf of the Underwriters) and the Company on the Price Determination Date, when market demand for the Offer Shares will be determined. The Price Determination Date is expected to be on or before Thursday, 5 July 2018.

If, for any reason, the Company and the Joint Bookrunners (for themselves and on behalf of the Underwriters) are unable to reach agreement on the Offer Price on Thursday, 5 July 2018, the Share Offer will not proceed and will lapse.

Reduction in indicative Offer Price range

The Joint Book-runners (for themselves and on behalf of the Underwriters) may, based on the book-building process and with the prior consent of the Company, reduce the indicative Offer Price range stated in this prospectus at any time prior to the morning of the last day for lodging applications under the Public Offer. In such a case, the Company will, as soon as practicable following the decision to make such reduction, and in any event no later than the morning of the day which is the last day for lodging applications under the Public Offer, cause there to be published on the website of the Stock Exchange at www.hkexnews.hk and the Company at www.hanveygroup.com.hk a notice of reduction of the Offer Price range. Such notice shall also include confirmation or revision, as appropriate, of the working capital statement, offer statistics and any financial or other information in this prospectus which may change as a result of any such reduction.

Before submitting applications for the Public Offer Shares, applicants should have regard to the possibility that any announcement of a reduction in the indicative Offer Price range may not be made until the day which is the last day for lodging applications under the Public Offer.

The applicable final Offer Price, the level of indications of interest in the Placing, the level of applications of the Public Offer and the basis of allocations of the Public Offer Shares are expected to be announced on Wednesday, 11 July 2018 on the Stock Exchange’s website at www.hkexnews.hk and on the Company’s website at www.hanveygroup.com.hk.

Results of allocations in the Public Offer, including the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants (where applicable) and the number of Public Offer Shares successfully applied for under **WHITE** and **YELLOW** Application Forms will be made available through a variety of channels as described in “How to Apply for the Public Offer Shares – 10. Publication of results”.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

CONDITIONS OF THE SHARE OFFER

Acceptance of all applications for the Offer Shares is conditional upon, amongst other things, the satisfaction of all the following conditions:

(a) Listing

The Stock Exchange granting the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Share Offer as mentioned in this prospectus and such listing and permission not subsequently being revoked prior to the commencement of dealings in the Shares on the Stock Exchange.

(b) Price Determination

The Offer Price having been duly agreed and the execution of the Price Determination Agreement on or around the Price Determination Date.

(c) Underwriting Agreements

- (1) The execution and delivery of the Placing Underwriting Agreement on or around the Price Determination Date; and
- (2) The obligations of the Underwriters under each of the Underwriting Agreements becoming and remaining unconditional in all respects. This requires that (i) none of the Underwriting Agreements is terminated in accordance with its terms or otherwise prior to 8:00 a.m. on the Listing Date, which is expected to be Thursday, 12 July 2018; and (ii) all other conditions set out in the Underwriting Agreements are fulfilled, on or before the dates and times specified in the Underwriting Agreements (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event, not later than the 30th day after the date of this prospectus.

If such conditions have not been fulfilled or waived prior to the dates and times specified in the Underwriting Agreements, the Share Offer will lapse and the Stock Exchange will be notified immediately. Notice of lapse of the Share Offer will be published by our Company on the website of the Stock Exchange at www.hkexnews.hk and our Company's website at www.hanveygroup.com.hk on the next Business Day following the date of such lapse. All money received will be refunded to applicants of the Public Offer without interests.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

THE PUBLIC OFFER

Number of Offer Shares initially offered

The Company is initially offering Public Offer Shares for subscription by the public in Hong Kong at the Offer Price, representing 10% of the total number of Offer Shares initially available under the Share Offer, subject to reallocation as mentioned below.

The Public Offer is open to members of the public in Hong Kong as well as to institutional and professional investors. The Public Offer Shares will represent 2.5% of the Company's enlarged total number of issued shares immediately after completion of the Share Offer. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities.

Completion of the Public Offer is subject to the conditions as set out in the paragraph headed "Conditions of the Share Offer" in this section above.

Allocation

Allocation of the Public Offer Shares to investors under the Public Offer will be based solely on the level of valid applications received under the Public Offer. The basis of allocation may vary, depending on the number of the Public Offer Shares validly applied for by applicants. Such allocation could, where appropriate, consist of balloting, which could mean that some applicants may receive a higher allocation than others who have applied for the same number of Public Offer Shares, and those applicants who are not successful in the ballot may not receive any Public Offer Shares.

Reallocation

The allocation of the Offer Shares between the Placing and the Public Offer is subject to reallocation on the following basis:

- (a) if the number of Shares validly applied for under the Public Offer represents 15 times or more but less than 50 times the number of Shares initially available for subscription under the Public Offer, then Shares will be reallocated to the Public Offer from the Placing, so that the total number of Shares available for subscription under the Public Offer will be increased to 75,000,000 Shares, representing 30% of the number of the Offer Shares initially available for subscription under the Share Offer;
- (b) if the number of Shares validly applied for under the Public Offer represents 50 times or more but less than 100 times the number of Shares initially available for subscription under the Public Offer, then Shares will be reallocated to the Public Offer from the Placing, so that the number of Shares available for subscription under the

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

Public Offer will be increased to 100,000,000 Shares, representing 40% of the number of the Offer Shares initially available for subscription under the Share Offer; and

- (c) if the number of Shares validly applied for under the Public Offer represents 100 times or more the number of Shares initially available for subscription under the Public Offer, then Shares will be reallocated to the Public Offer from the Placing, so that the number of Shares available for subscription under the Public Offer will be increased to 125,000,000 Shares, representing 50% of the number of the Offer Shares initially available for subscription under the Share Offer.

In all cases, the number of Offer Shares allocated to the Placing will be correspondingly reduced. The Offer Shares to be offered in the Public Offer and the Placing may, in certain circumstances, be reallocated as between these offerings at the discretion of Joint Bookrunners. With reference to Guidance Letter HKEX-GL91-18, if such reallocation is done other than pursuant to paragraph (a), (b) or (c) above, the maximum total number of Offer Shares that may be allocated to the Public Offer following such reallocation shall be not more than double the initial allocation to the Public Offer i.e. 50,000,000 Offer Shares, representing 20% of the number of the Offer Shares initially available for subscription under the Share Offer.

Applications

Each applicant under the Public Offer will also be required to give an undertaking and confirmation in the application submitted by him/her that he/she and any person(s) for whose benefit he/she is making the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the Placing, and such applicant's application is liable to be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be) or it has been or will be placed or allocated Offer Shares under the Placing. Multiple or suspected multiple applications and any application for more than 100% of the Public Offer Shares initially comprised in the Public Offer are liable to be rejected.

The listing of the Shares on the Stock Exchange is sponsored by the Sole Sponsor. Applicants under the Public Offer are required to pay, on application, the maximum indicative Offer Price of HK\$0.27 per Public Offer Share in addition to any brokerage, SFC transaction levy and Stock Exchange trading fee payable on each Public Offer Share. Further details are set out below in the section headed "How to Apply for the Public Offer Shares" in this prospectus.

References in this prospectus to applications, Application Forms, application monies or the procedure for application relate solely to the Public Offer.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

THE PLACING

Number of Offer Shares offered

Subject to reallocation as described above, the Placing will consist of an initial offering of 225,000,000 Placing Shares representing 90% of the Offer Shares under the Share Offer and 22.5% of the Company's enlarged total number of shares immediately after the completion of the Share Offer.

Allocation

The Placing will include selective marketing of the Placing Shares to institutional and professional investors and private investors. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. Allocation of the Placing Shares pursuant to the Placing will be based on a number of factors, including the level and timing of demand, the total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further Offer Shares, and/or hold or sell its Offer Shares, after the listing of the Offer Shares on the Stock Exchange. Such allocation is intended to result in a distribution of the Offer Shares on a basis which would lead to the establishment of a solid shareholder base to the benefit of the Company and our Shareholders as a whole.

The Joint Lead Managers (for themselves and on behalf of the Underwriters) may require any investor who has been offered the Placing Shares under the Placing, and who has made an application under the Public Offer to provide sufficient information to the Joint Lead Managers (for themselves and on behalf of the Underwriters) so as to allow it to identify the relevant application under the Public Offer and to ensure that it is excluded from any application of the Public Offer Shares under the Public Offer.

COMMENCEMENT OF DEALINGS

Dealings in the Shares on GEM are expected to commence at 9:00 a.m. on Thursday, 12 July 2018.

Our Shares will be traded in board lots of 10,000 Shares each and are freely transferable.

ADMISSION OF THE SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus on GEM and our Company complies with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on GEM or any other date as determined by HKSCC.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day.

All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

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

Dealings in the Shares may be settled through CCASS. Investors should seek the advice of their stockbroker or other professional adviser for details of those settlement arrangements and how such arrangements will affect their rights, interests and liabilities.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

1. HOW TO APPLY

If you apply for the Public Offer Shares, then you may not apply for or indicate an interest for Placing Shares.

To apply for the Public Offer Shares, you may:

- (a) use a **WHITE** or **YELLOW** Application Form; or
- (b) electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

Our Company, the Joint Bookrunners, the Joint Lead Managers and their respective agents may reject or accept any application, in full or in part, for any reason at their discretion.

2. WHO CAN APPLY

You can apply for the Public Offer Shares on a **WHITE** or **YELLOW** Application Form if you or any person(s) for whose benefit you are applying:

- (a) are 18 years of age or older;
- (b) have a Hong Kong address;
- (c) are outside the United States, and are not a United States Person (as defined in Regulation S under the U.S. Securities Act of 1933, as amended and supplemented or otherwise modified from time to time (“**Regulation S**”)); and
- (d) are not a legal or natural person of the PRC.

If you are a firm, the application must be in the individual members’ names. If you are a body corporate, the Application Form must be signed by a duly authorised officer, who must state his or her representative capacity, and stamped with your corporation’s chop.

If an application is made by a person under a power of attorney, our Company and the Joint Bookrunners, as our Company’s agent, may accept or reject it at their discretion, and on any conditions they think fit, including evidence of the attorney’s authority.

The number of joint applicants may not exceed four for the Public Offer Shares.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

Unless permitted by the GEM Listing Rules, you cannot apply for any Public Offer Shares if you are:

- (a) an existing beneficial owner of Shares and/or any of the subsidiaries of our Company;
- (b) a Director or chief executive officer of our Company and/or any of our subsidiaries;
- (c) an associate and/or a close associate (as defined in the GEM Listing Rules) of any of the above;
- (d) a connected person and/or a core connected person (as defined in the GEM Listing Rules) of our Company, or will become a connected person and/or a core connected person of our Company immediately upon the completion of the Share Offer; or
- (e) have been allocated or have applied for or indicated an interest in any Placing Shares or otherwise participate in the Placing.

3. APPLYING FOR THE PUBLIC OFFER SHARES

Which Application Channel to Use

For the Public Offer Shares to be issued in your own name, use a **WHITE** Application Form.

For the Public Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a **YELLOW** Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

Where to Collect the Application Forms

You can collect a **WHITE** Application Form and a prospectus during normal business hours between 9:00 a.m. to 5:00 p.m. from Thursday, 28 June 2018 to Friday, 29 June 2018 and on Tuesday, 3 July 2018 and between 9:00 a.m. and 1:00 p.m. on Saturday, 30 June 2018 and between 9:00 a.m. and 12:00 noon Wednesday, 4 July 2018 from:

- (i) any of the following offices of the Joint Bookrunners:

Bookrunner Name	Address
Alpha Financial Group Limited	Room A, 17/F, Fortune House 61 Connaught Road Central Central, Hong Kong
Bluemount Securities Limited	Room 2403-05, Jubilee Centre 18 Fenwick Street Wan Chai, Hong Kong

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

(ii) any of the branches of the following receiving bank:

Hang Seng Bank Limited

District	Branch Name	Address
Hong Kong Island	Head Office	83 Des Voeux Road Central
	North Point Branch	335 King's Road
Kowloon	Tsim Sha Tsui Branch	18 Carnarvon Road
	Yau Ma Tei Branch	363 Nathan Road

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Thursday, 28 June 2018 until 12:00 noon on Wednesday, 4 July 2018 from the Depository Counter of HKSCC at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong or from your stockbroker.

Time for Lodging Application Forms

Your completed **WHITE** or **YELLOW** Application Form, together with a cheque or a banker's cashier order attached and marked payable to "Hang Seng (Nominees) Limited – Hanvey Group Holdings Limited Public Offer" for the payment, should be deposited in the special collection boxes provided at any of the branches of the receiving bank listed above, at the following times:

Thursday, 28 June 2018 – 9:00 a.m. to 5:00 p.m.

Friday, 29 June 2018 – 9:00 a.m. to 5:00 p.m.

Saturday, 30 June 2018 – 9:00 a.m. to 1:00 p.m.

Tuesday, 3 July 2018 – 9:00 a.m. to 5:00 p.m.

Wednesday, 4 July 2018 – 9:00 a.m. to 12:00 noon

The application lists will be open from 11:45 a.m. to 12:00 noon on Wednesday, 4 July 2018, the last application day or such later time as described in the paragraph headed "9. Effect of Bad Weather on the Opening and Closing of the Application Lists" in this section below.

4. TERMS AND CONDITIONS OF AN APPLICATION

Follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

By submitting an Application Form, among other things, you (and if you are joint applicants, each of you jointly and severally) for yourself or as an agent or nominee on behalf of each person for whom you act:

- (i) undertake to execute all relevant documents and instruct and authorise our Company and/or the Sole Sponsor (or its agents or nominees) and/or the Joint Bookrunners (or their agents or nominees) and/or the Joint Lead Managers (or their agents or nominees), as agents of our Company, to execute any documents for you and to do on your behalf all things necessary to register any Public Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles;
- (ii) agree to comply with the Articles, the Companies Law, the Companies Ordinance and the Companies (Winding Up and Miscellaneous Provisions) Ordinance;
- (iii) confirm that you have read the terms and conditions and application procedures set out in this prospectus and in the Application Form and agree to be bound by them;
- (iv) confirm that you have received and read this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations except those in any supplement to this prospectus;
- (v) confirm that you are aware of the restrictions on the Share Offer in this prospectus;
- (vi) agree that none of our Company, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisers, representatives and any other parties involved in the Share Offer is or will be liable for any information and representations not in this prospectus (and any supplement to it);
- (vii) undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Placing Shares under the Placing nor participated in the Placing;
- (viii) agree to disclose to our Company, the Hong Kong Branch Share Registrar, the receiving bank, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and/or their respective advisers and agents any personal data which any of them may require about you and the person(s) for whose benefit you have made the application;
- (ix) if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and none of our Company, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers and the Underwriters nor any of their respective officers or advisers will breach any law outside Hong Kong as

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus and the Application Form;

- (x) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- (xi) agree that your application will be governed by the laws of Hong Kong;
- (xii) represent, warrant and undertake that (i) you understand that the Public Offer Shares have not been and will not be registered under the U.S. Securities Act; and (ii) you and any person for whose benefit you are applying for the Public Offer Shares are outside the United States (as defined in Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;
- (xiii) warrant that the information you have provided is true and accurate;
- (xiv) agree to accept the Public Offer Shares applied for, or any lesser number allocated to you under the application;
- (xv) authorise our Company to place your name(s) or the name of the HKSCC Nominees, on the register of members of our Company as the holder(s) of any Public Offer Shares allocated to you, and our Company and/or its agents to send any Share certificate(s) and/or any refund cheque(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you are eligible to collect the Share certificate(s) and/or refund cheque(s) in person;
- (xvi) declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;
- (xvii) understand that our Company, the Directors, the Sole Sponsor, the Joint Bookrunners will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Public Offer Shares to you and that you may be prosecuted for making a false declaration;
- (xviii) (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC by you or by any one as your agent or by any other person; and
- (xix) (if you are making the application as an agent for the benefit of another person) warrant that (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC; and (ii) you have due authority to sign the Application Form or give **electronic application instructions** on behalf of that other person as their agent.

Additional Instructions for YELLOW Application Form

You should refer to the **YELLOW** Application Form for details.

5. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

General

CCASS Participants may give **electronic application instructions** to apply for the Public Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a **CCASS Investor Participant**, you may give these **electronic application instructions** through the CCASS Phone System by calling 2979 7888 or through the CCASS Internet System (<https://ip.ccass.com>) (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you go to:

Hong Kong Securities Clearing Company Limited

Customer Service Centre
1/F., One & Two Exchange Square
8 Connaught Place, Central
Hong Kong

and complete an input request form.

You can also collect a prospectus from the above address.

If you are not a **CCASS Investor Participant**, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Public Offer Shares on your behalf.

You will be deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application to our Company, the Joint Bookrunners and the Hong Kong Branch Share Registrar.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

Giving Electronic Application Instructions to HKSCC via CCASS

Where you have given **electronic application instructions** to apply for the Public Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

- (i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus; and
- (ii) HKSCC Nominees will do the following things on your behalf:
 - (1) agree that the Public Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;
 - (2) agree to accept the Public Offer Shares applied for or any lesser number allocated;
 - (3) undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any Placing Shares under the Placing;
 - (4) (if the **electronic application instructions** are given for your benefit) declare that only one set of **electronic application instructions** has been given for your benefit;
 - (5) (if you are an agent for another person) declare that you have only given one set of **electronic application instructions** for the other person's benefit and are duly authorised to give those instructions as their agent;
 - (6) confirm that you understand that our Company, the Directors, the Sole Sponsor and the Joint Bookrunners will rely on your declarations and representations in deciding whether or not to allocate any of the Public Offer Shares to you and that you may be prosecuted for if you make a false declaration;
 - (7) authorise our Company to place HKSCC Nominees' name on the register of members of our Company as the holder of the Public Offer Shares allocated to you and such other registers as required under the Articles, and to send Share certificate(s) and/or refund monies under the arrangements separately agreed between our Company and HKSCC;
 - (8) confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

- (9) confirm that you have received and/or read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made and will not rely on any other information or representations, save as set out in any supplement to this prospectus;
- (10) agree that none of our Company, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisers, representatives and any other parties involved in the Share Offer, is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);
- (11) agree to disclose your personal data to our Company, the Hong Kong Branch Share Registrar, the receiving bank, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and/or its respective directors, officers, employees, partners, agents, advisers, representatives and any other parties involved in the Share Offer;
- (12) agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;
- (13) agree that any application made by HKSCC Nominees on your behalf is irrevocable before the fifth day after the time of the opening of the application lists (excluding any day which is a Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with our Company and to become binding when you give the instructions and such collateral contract to be in consideration of our Company agreeing that it will not offer any Public Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding any day which is a Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;
- (14) agree that once HKSCC Nominees' application is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by our Company's announcement of the results of the Public Offer;
- (15) agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

the CCASS Operational Procedures, for the giving **electronic application instructions** to apply for the Public Offer Shares;

- (16) agree with our Company, for itself and for the benefit of each Shareholder (and so that our Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for our Company and on behalf of each of the Shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Articles and the Companies (Winding Up and Miscellaneous Provisions) Ordinance; and
- (17) agree that your application, any acceptance of it and the resulting contract will be governed by and construed in accordance with the Laws of Hong Kong.

Effect of Giving Electronic Application Instructions to HKSCC via CCASS

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to our Company or any other person in respect of the things mentioned below:

- (a) instructed and authorised HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Public Offer Shares on your behalf;
- (b) instructed and authorised HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum Offer Price per Offer Share initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and the Stock Exchange trading fee) by crediting your designated bank account; and
- (c) instructed and authorised HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the **WHITE** Application Form and in this prospectus.

Minimum Purchase Amount and Permitted Numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** for a minimum of 10,000 Public Offer Shares. Instructions for more than 10,000 Public Offer Shares must be in one of the numbers set out in the table in the Application Forms. No application for any other number of Public Offer Shares will be considered and any such application is liable to be rejected.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

Time for Inputting Electronic Application Instructions

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

Thursday, 28 June 2018 – 9:00 a.m. to 8:30 p.m.⁽¹⁾
Friday, 29 June 2018 – 8:00 a.m. to 8:30 p.m.⁽¹⁾
Saturday, 30 June 2018 – 8:00 a.m. to 1:00 p.m.⁽¹⁾
Tuesday, 3 July 2018 – 8:00 a.m. to 8:30 p.m.⁽¹⁾
Wednesday, 4 July 2018 – 8:00 a.m.⁽¹⁾ to 12:00 noon

Note:

(1) These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants.

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Thursday, 28 June 2018 until 12:00 noon on Wednesday, 4 July 2018 (24 hours daily, except on the last application day).

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Wednesday, 4 July 2018, the last application day or such later time as described in the paragraph headed “9. Effect of Bad Weather on the Opening and Closing of the Application Lists” in this section below.

No Multiple Applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Public Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Public Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Public Offer Shares given by you or for your benefit to HKSCC will be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

Personal Data

The section of the Application Form headed “Personal Data” applies to any personal data held by our Company, the Hong Kong Branch Share Registrar, the receiving bank, the Sole Sponsor, the Joint Bookrunners, the Underwriters and any of their respective directors, officers, employees, partners, agents, advisers, representatives and any other parties involved in the Share Offer about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

6. WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the Public Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Such facility is subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. Our Company, the Sole Sponsor, the Joint Bookrunners, the Underwriters, any of their respective directors, officers, employees, partners, agents, advisers, representatives and any other parties involved in the Share Offer take no responsibility for such applications and provide no assurance that any CCASS Participant will be allotted any Public Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to the CCASS Phone System or the CCASS Internet System for submission of **electronic application instructions**, they should either (i) submit a **WHITE** or **YELLOW** Application Form, or (ii) go to HKSCC’s Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon on Wednesday, 4 July 2018, the last application day or such later time as described in the paragraph headed “9. Effect of Bad Weather on the Opening and Closing of the Application Lists” in this section below.

7. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Public Offer Shares are not allowed except by nominees. If you are a nominee, in the box on the Application Form marked “For nominees”, you must include:

- (a) an account number; or
- (b) some other identification code,

for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and:

- (a) the principal business of that company is dealing in securities; and
- (b) you exercise statutory control over that company,

then the application will be treated as being made for your benefit.

“**Unlisted company**” means a company with no equity securities listed on the Stock Exchange.

“**Statutory control**” means you:

- (a) control the composition of the board of directors of the company;
- (b) control more than half of the voting power of the company; or
- (c) hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

8. HOW MUCH ARE THE PUBLIC OFFER SHARES

The maximum Offer Price is HK\$0.27 per Offer Share. You must also pay brokerage of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%. This means that for one board lot of 10,000 Offer Shares, you will pay HK\$2,727.21.

The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for the Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee in full upon application for Shares under the terms set out in the Application Forms.

You may submit an application using a **WHITE** or **YELLOW** Application Form in respect of a minimum of 10,000 Public Offer Shares. Each application or **electronic application instruction** in respect of more than 10,000 Public Offer Shares must be in one of the numbers set out in the table in the Application Form.

If your application is successful, brokerage will be paid to the Exchange Participants (as defined in the GEM Listing Rules), and the SFC transaction levy and the Stock Exchange

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trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

For further details on the Offer Price, please refer to the section headed “Structure and Conditions of the Share Offer” in this prospectus.

9. EFFECT OF BAD WEATHER ON THE OPENING AND CLOSING OF THE APPLICATION LISTS

The application lists will not open if there is:

- (a) a tropical cyclone warning signal number 8 or above; or
- (b) a “black” rainstorm warning,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Wednesday, 4 July 2018. Instead, they will open between 11:45 a.m. and 12:00 noon on the next business day which does not have either of those warnings in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Wednesday, 4 July 2018 or if there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal in force in Hong Kong that may affect the dates mentioned in the section headed “Expected Timetable” in this prospectus, an announcement will be made in such event.

10. PUBLICATION OF RESULTS

Our Company expects to announce the final Offer Price, the level of indication of interest in the Placing, the level of applications under the Public Offer and the basis of allocation of the Public Offer on Wednesday, 11 July 2018 on the websites of our Company at www.hanveygroup.com.hk and the Stock Exchange at www.hkexnews.hk.

Results of allocations in Public Offer, and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Public Offer (where applicable) will be available at the times and date and in the manner specified below:

- (a) in the announcement to be posted on the website of our Company at www.hanveygroup.com.hk and the website of the Stock Exchange at www.hkexnews.hk, respectively, by no later than 9:00 a.m. on Wednesday, 11 July 2018;
- (b) from the designated results of allocations website at www.tricor.com.hk/ipo/result with a “search by ID function” on a 24-hour basis from 8:00 a.m. on Wednesday, 11 July 2018 to 12:00 midnight on Tuesday, 17 July 2018;

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- (c) by telephone enquiry line by calling 3691 8488 between 9:00 a.m. and 6:00 p.m. from Wednesday, 11 July 2018 to Monday, 16 July 2018 on a business day; and
- (d) in the special allocation results booklets which will be available for inspection during the opening hours from Wednesday, 11 July 2018 to Friday, 13 July 2018 at the receiving bank designated branches referred to above.

If our Company accepts your offer to purchase (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Public Offer Shares if the conditions of the Share Offer are satisfied and the Share Offer is not otherwise terminated. Further details are contained in the section headed “Structure and Conditions of the Share Offer” in this prospectus.

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

11. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED OFFER SHARES

You should note the following situations in which the Public Offer Shares will not be allotted to you:

(i) If your application is revoked:

By completing and submitting an Application Form or giving **electronic application instructions** to HKSCC, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with our Company.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance) gives a public notice under that section which excludes or limits that person’s responsibility for this prospectus.

If any supplement to this prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

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If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

(ii) If our Company or its agents exercise their discretion to reject your application:

Our Company, the Joint Bookrunners, the Joint Lead Managers and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

(iii) If the allotment of the Public Offer Shares is void:

The allotment of the Public Offer Shares will be void if the Listing Committee of the Stock Exchange does not grant permission to list the Shares either:

- (a) within three weeks from the closing date of the applications lists; or
- (b) within a longer period of up to six weeks if the Listing Committee notifies our Company of that longer period within three weeks of the closing date of the application lists.

(iv) If:

- (a) you make multiple applications or suspected multiple applications;
- (b) you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Public Offer Shares and Placing Shares;
- (c) your Application Form is not completed in accordance with the stated instructions;
- (d) your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonoured upon its first presentation;
- (e) the Underwriting Agreements do not become unconditional or are terminated;
- (f) our Company or the Sole Sponsor or the Joint Bookrunners or the Joint Lead Managers believe that by accepting your application, it or they would violate applicable securities or other laws, rules or regulations; or

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- (g) your application is for more than 100% of the Public Offer Shares initially offered under the Public Offer.

12. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum Offer Price of HK\$0.27 per Offer Share (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee thereon), or if the conditions of the Public Offer are not fulfilled in accordance with the paragraph headed “Conditions of the Share Offer” under the section headed “Structure and Conditions of the Share Offer” in this prospectus or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and the Stock Exchange trading fee, will be refunded, without interest or the cheque or banker’s cashier order will not be cleared.

Any refund of your application monies will be made on or before Wednesday, 11 July 2018.

13. DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one Share certificate for all Public Offer Shares allotted to you under the Public Offer (except pursuant to applications made on **YELLOW** Application Forms or by **electronic application instructions** to HKSCC via CCASS where the Share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application. If you apply by **WHITE** or **YELLOW** Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- (a) Share certificate(s) for all the Public Offer Shares allotted to you (for **YELLOW** Application Forms, Share certificate(s) will be deposited into CCASS as described below); and
- (b) refund cheque(s) crossed “Account Payee Only” in favor of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the Public Offer Shares, wholly or partially unsuccessfully applied for; and/or (ii) the difference between the Offer Price and the maximum Offer Price per Offer Share paid on application in the event that the Offer Price is less than the maximum Offer Price (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest). Part of the Hong Kong identity card number/passport number, provided by you or the first-named applicant (if you are joint applicants), may be printed on your refund cheque, if any. Your banker may require verification of your Hong Kong identity card number/passport number before

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

encashment of your refund cheque(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund cheque(s).

Subject to arrangement on despatch/collection of Share certificates and refund monies as mentioned below, any refund cheques and Share certificate(s) are expected to be posted on or around Wednesday, 11 July 2018. The right is reserved to retain any Share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker's cashier order(s).

Share certificates will only become valid at 8:00 a.m. on Thursday, 12 July 2018, provided that the Share Offer has become unconditional in all respects at or before that time and that the right of termination described in the section headed "Underwriting" in this prospectus has not been exercised. Investors who trade Shares prior to the receipt of the Share certificates or prior to the Share certificates becoming valid do so entirely at their own risk.

Personal Collection

(i) If you apply using a WHITE Application Form

If you apply for 1,000,000 or more Public Offer Shares and have provided all information required by your Application Form, you may collect your refund cheque(s) and/or Share certificate(s) (where applicable) from the Hong Kong Branch Share Registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong from 9:00 a.m. to 1:00 p.m. on Wednesday, 11 July 2018.

If you are an individual who is eligible for personal collection, you must not authorise any other person to collect for you. If you are a corporate applicant who is eligible for personal collection, your authorised representative must bear a letter of authorisation from your corporation stamped with your corporation's chop. Both individuals and authorised representatives must produce, at the time of collection, evidence of identity acceptable to the Hong Kong Branch Share Registrar.

If you do not collect your refund cheque(s) and/or Share certificate(s) (where applicable) personally within the time specified for collection, they will be despatched promptly to the address specified in your Application Form by ordinary post at your own risk.

If you apply for less than 1,000,000 Public Offer Shares, your refund cheque(s) and/or Share certificate(s) (where applicable) will be sent to the address specified on the relevant Application Form on or before Wednesday, 11 July 2018 by ordinary post and at your own risk.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

(ii) If you apply using a YELLOW Application Form

If you apply for 1,000,000 Public Offer Shares or more, please follow the same instructions as described above. If you have applied for less than 1,000,000 Public Offer Shares, your refund cheque(s) will be sent to the address specified on the relevant Application Form on or before Wednesday, 11 July 2018 by ordinary post and at your own risk.

If you apply by using a **YELLOW** Application Form and your application is wholly or partially successful, your Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your or the designated CCASS Participant's stock account as stated in your Application Form on Wednesday, 11 July 2018, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

If you apply through a designated CCASS Participant (other than a CCASS Investor Participant)

For Public Offer Shares credited to your designated CCASS Participant's stock account (other than CCASS Investor Participant), you can check the number of Public Offer Shares allotted to you with that CCASS Participant.

If you are applying as a CCASS Investor Participant

Our Company will publish the results of CCASS Investor Participants' applications together with the results of the Public Offer in the manner described in the paragraph headed "10. Publication of Results" in this section above. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Wednesday, 11 July 2018 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Public Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System.

(iii) If you apply via electronic application instructions to HKSCC

Allocation of Public Offer Shares

For the purposes of allocating Public Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit instructions are given will be treated as an applicant.

Deposit of Share Certificates into CCASS and Refund of Application Monies

- (a) If your application is wholly or partially successful, your Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

account or your CCASS Investor Participant stock account on Wednesday, 11 July 2018, or, on any other date determined by HKSCC or HKSCC Nominees.

- (b) Our Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, our Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Public Offer Shares in the manner specified in the paragraph headed “10. Publication of Results” in this section above on Wednesday, 11 July 2018. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Wednesday, 11 July 2018 or such other date as determined by HKSCC or HKSCC Nominees.
- (c) If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.
- (d) If you have applied as a CCASS Investor Participant, you can also check the number of Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC’s “An Operating Guide for Investor Participants” in effect from time to time) on Wednesday, 11 July 2018. Immediately following the credit of the Public Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Public Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.
- (e) Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Wednesday, 11 July 2018.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

14. ADMISSION OF THE SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second business day after any trading day.

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

Investors should seek the advice of their stockbroker or other professional advisers for details of the settlement arrangement and how such arrangements will affect their rights, interests and liabilities.

All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

The following is the text of a report, prepared for inclusion in this prospectus, received from the independent reporting accountants, HLB Hodgson Impey Cheng Limited, Certified Public Accountants, Hong Kong.



國 衛 會 計 師 事 務 所 有 限 公 司
Hodgson Impey Cheng Limited

31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

28 June 2018

ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF HANVEY GROUP HOLDINGS LIMITED AND TC CAPITAL INTERNATIONAL LIMITED

Introduction

We report on the historical financial information of HANVEY GROUP HOLDINGS LIMITED (the “**Company**”) and its subsidiaries (together, the “**Group**”) set out on pages I-4 to I-62, which comprises the consolidated statements of financial position as at 31 December 2016 and 2017 and the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for each of the years then ended (the “**Track Record Period**”) and a summary of significant accounting policies and other explanatory information (together, the “**Historical Financial Information**”). The Historical Financial Information set out on pages I-4 to I-62 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated 28 June 2018 (the “**Prospectus**”) in connection with the initial listing of shares of the Company on the GEM of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”).

Directors' responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200, “Accountants' Reports on Historical Financial

Information in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants’ judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity’s preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion the Historical Financial Information gives, for the purposes of the accountants’ report, a true and fair view of Company’s financial position as at 31 December 2016 and 2017 and the Group’s financial position as at 31 December 2016 and 2017 and of the Group’s financial performance and cash flows for the Track Record Period in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on the GEM of the Stock Exchange and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page I-4 have been made.

Dividends

We refer to Note 14 to the Historical Financial Information which states that no dividends have been paid by the Company in respect of the Track Record Period.

No historical financial statements for the Company

No financial statements have been prepared for the Company since its date of incorporation.

Yours faithfully,
HLB Hodgson Impey Cheng Limited
Certified Public Accountants

Shek Lui
Practicing Certificate Number: P05895
Hong Kong, 28 June 2018

I. HISTORICAL FINANCIAL INFORMATION OF THE GROUP

Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The consolidated financial statements of the Group for the Track Record Period, on which the Historical Financial Information is based, have been prepared based on the accounting policies which conform with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA and were audited by us in accordance with Hong Kong Standards on Auditing issued by the HKICPA (“**Underlying Financial Statements**”).

The Historical Financial Information is presented in Hong Kong dollars (“HK\$”) and all values are rounded to the nearest thousand (HK\$'000) except when otherwise indicated.

Consolidated Statements of Profit or Loss and Other Comprehensive Income

	<i>Notes</i>	Year ended 31 December	
		2016	2017
		<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	7	151,892	174,817
Cost of sales		<u>(103,516)</u>	<u>(123,795)</u>
Gross profit		48,376	51,022
Other income and other loss, net	8	131	2,505
Selling and distribution expenses		(6,183)	(6,331)
Administrative expenses		(31,089)	(31,644)
Finance costs	9	(5,333)	(4,710)
Listing expenses		<u>–</u>	<u>(4,826)</u>
Profit before tax	10	5,902	6,016
Income tax expense	13	<u>(1,835)</u>	<u>(2,056)</u>
Profit for the year		<u><u>4,067</u></u>	<u><u>3,960</u></u>

		Year ended 31 December	
		2016	2017
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Other comprehensive (loss)/income			
Item that may be reclassified subsequently to profit and loss:			
Loss arising from changes in fair value of available-for-sale financial assets		(70)	–
Reclassification relating to impairment loss on available-for-sale financial assets		70	–
Exchange differences arising on translation		(1,103)	490
		<u>(1,103)</u>	<u>490</u>
Other comprehensive (loss)/income for the year, net of tax		<u>(1,103)</u>	<u>490</u>
Total comprehensive income for the year		<u>2,964</u>	<u>4,450</u>
Profit for the year attributable to:			
Owners of the Company		<u>4,067</u>	<u>3,960</u>
Total comprehensive income for the year attributable to:			
Owners of the Company		<u>2,964</u>	<u>4,450</u>
Earnings per share attributable to equity owners of the Company			
Basic and diluted (<i>HK\$ cents</i>)	15	<u>0.54</u>	<u>0.53</u>

Consolidated Statements of Financial Position

	<i>Notes</i>	As at 31 December	
		2016	2017
		<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current assets			
Property, plant and equipment	16	39,098	35,860
Investment properties	17	17,882	15,000
Available-for-sale financial assets	18	440	440
Deferred tax assets	19	85	139
		<u>57,505</u>	<u>51,439</u>
Current assets			
Inventories	21	16,246	14,431
Trade receivables	22	22,490	49,124
Other receivables, deposits and prepayments	23	5,299	3,319
Amount due from a director	24	23,396	–
Amounts due from an ultimate holding company	25	7,862	11,118
Amounts due from related parties	26	21,330	–
Other financial assets	20	16,324	16,673
Pledged bank deposits	27	–	28,505
Cash and bank balances	27	10,593	9,431
		<u>123,540</u>	<u>132,601</u>
Current liabilities			
Trade payables	28	38,893	33,722
Bills payables	28	21,296	18,493
Other payables, receipts in advance and accrued expenses	29	12,752	11,472
Amount due to a director	24	–	26
Bank overdrafts	30	9,513	1,013
Borrowings	30	69,558	64,091
Obligation under finance leases	31	203	144
Tax payable		1,363	693
		<u>153,578</u>	<u>129,654</u>

	<i>Notes</i>	As at 31 December	
		2016	2017
		<i>HK\$'000</i>	<i>HK\$'000</i>
Net current (liabilities)/assets		<u>(30,038)</u>	<u>2,947</u>
Total assets less current liabilities		<u>27,467</u>	<u>54,386</u>
Non-current liabilities			
Borrowings	30	–	22,000
Obligation under finance leases	31	<u>17</u>	<u>486</u>
		<u>17</u>	<u>22,486</u>
Net assets		<u><u>27,450</u></u>	<u><u>31,900</u></u>
Capital and reserves			
Share capital	32	1,000	–
Reserves		<u>26,450</u>	<u>31,900</u>
Total equity		<u><u>27,450</u></u>	<u><u>31,900</u></u>

Statement of Financial Position of the Company

	<i>Notes</i>	As at 31 December 2017 HK\$'000
Non-current asset		
Investment in subsidiary		—
Current asset		
Other receivables and prepayments		1,319
Current liabilities		
Other payables and accrued expenses		225
Amounts due to fellow subsidiaries		6,012
		6,237
Net current liabilities		(4,918)
Total assets less current liabilities		(4,918)
Net liabilities		(4,918)
Capital and reserves		
Share capital	32	—
Reserves	33	(4,918)
Total equity		(4,918)

Consolidated Statements of Changes in Equity

	Share capital <i>HK\$'000</i>	Exchange reserves <i>HK\$'000</i>	Other reserves <i>HK\$'000</i>	Available- for-sale revaluation reserve <i>HK\$'000</i>	Retained earnings <i>HK\$'000</i>	Total <i>HK\$'000</i>
As at 1 January 2016	1,000	176	–	–	23,310	24,486
Profit for the year	–	–	–	–	4,067	4,067
Other comprehensive loss for the year	–	(1,103)	–	–	–	(1,103)
Total comprehensive (loss)/income for the year	–	(1,103)	–	–	4,067	2,964
As at 31 December 2016 and 1 January 2017	1,000	(927)	–	–	27,377	27,450
Profit for the year	–	–	–	–	3,960	3,960
Other comprehensive income for the year	–	490	–	–	–	490
Total comprehensive income for the year	–	490	–	–	3,960	4,450
Effect of reorganisation	(1,000)	–	1,000	–	–	–
As at 31 December 2017	–	(437)	1,000	–	31,337	31,900

Consolidated Statements of Cash Flows

	<i>Notes</i>	Year ended 31 December	
		2016	2017
		<i>HK\$'000</i>	<i>HK\$'000</i>
OPERATING ACTIVITIES			
Profit before tax		5,902	6,016
Adjustments for:			
Interest income		(1,572)	(1,114)
Net foreign exchange loss/(gain)	8	55	(269)
Loss on disposal of property, plant and equipment, net	8	–	3,080
Loss/(gain) on disposal of investment property, net	8	1,480	(600)
Interest expenses	9	5,333	4,710
Net loss/(gain) arising from change in fair value of investment properties	8	436	(3,218)
Impairment loss of available-for-sale financial assets, net	8	70	–
Net loss arising from disposal of financial assets at fair value through profit or loss	8	–	114
Depreciation of property, plant and equipment	16	5,390	4,972
Operating cash flows before movements in working capital		17,094	13,691
(Increase)/decrease in inventories		(3,740)	1,815
Decrease/(increase) in trade receivables		522	(26,634)
(Increase)/decrease in other receivables, deposits and prepayments		(671)	1,980
Increase in amounts due from an ultimate holding company		(1,024)	(3,256)
Decrease in amounts due from/to a director		4,561	23,423
Decrease/(increase) in amounts due from related parties		463	(3,879)
Increase/(decrease) in trade payables		5,787	(5,171)
Decrease in bills payables		(16,120)	(2,803)
Decrease in other payables, receipts in advance and accrued expenses		(2,549)	(1,280)

	<i>Notes</i>	Year ended 31 December	
		2016	2017
		<i>HK\$'000</i>	<i>HK\$'000</i>
Net cash generated from/(used in) operations		4,323	(2,114)
Income tax paid		<u>(273)</u>	<u>(2,780)</u>
NET CASH GENERATED FROM/(USED IN) OPERATING ACTIVITIES		<u>4,050</u>	<u>(4,894)</u>
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(647)	(4,064)
Cash paid for investment		–	(245)
Proceeds from disposal of financial assets at fair value through profit or loss		–	131
Proceeds from disposal of property, plant and equipment		–	279
Proceeds from sales of investment properties		7,000	6,700
Increase in pledged bank deposits		–	(28,505)
Interest received		<u>1,121</u>	<u>765</u>
NET CASH GENERATED FROM/(USED IN) INVESTING ACTIVITIES		<u>7,474</u>	<u>(24,939)</u>

	<i>Notes</i>	Year ended 31 December	
		2016	2017
		<i>HK\$'000</i>	<i>HK\$'000</i>
FINANCING ACTIVITIES			
Repayment of finance leases		(194)	(213)
Leases interest paid		(14)	(8)
Borrowings interest paid		(5,319)	(4,702)
Proceeds from borrowings		307,850	320,787
Repayment of borrowings		<u>(300,420)</u>	<u>(279,250)</u>
NET CASH GENERATED FROM FINANCING ACTIVITIES		<u>1,903</u>	<u>36,614</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS		13,427	6,781
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		(11,583)	1,080
Effect of foreign exchange rate changes		<u>(764)</u>	<u>557</u>
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		<u><u>1,080</u></u>	<u><u>8,418</u></u>
Analysis of balances of cash and cash equivalents:			
Cash and bank balances	27	10,593	9,431
Bank overdrafts	30	<u>(9,513)</u>	<u>(1,013)</u>
Cash and cash equivalents as stated in the consolidated statements of cash flows	27	<u><u>1,080</u></u>	<u><u>8,418</u></u>

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. GENERAL INFORMATION

The Company was incorporated in Cayman Islands on 12 June 2017 as an exempted company with limited liability under the Companies Law, Cap.22 (Law 3 of 1961 as consolidated and revised) of the Cayman Islands. The addresses of the registered office and principal place of business of the Company are stated in the section headed "Corporate Information" of the Prospectus.

The Company is an investment holding company and its subsidiaries are principally engaged in design and development, manufacturing and distribution of watch products on original design manufacturing ("ODM") basis for watch manufacturers, brand owners and watch importers across the globe.

The Historical Financial Information is presented in ("HK\$" or "HKD") which is also the functional currency of the Company and its subsidiaries.

2. GROUP REORGANISATION AND BASIS OF PRESENTATION OF HISTORICAL FINANCIAL INFORMATION

The Historical Financial Information has been prepared based on the accounting policies set out in Note 4 which conform with HKFRSs issued by the HKICPA.

The companies now comprising the Group underwent a group reorganisation as fully explained in the section headed "History, reorganisation and group structure" of the Prospectus (the "**Group Reorganisation**") in preparation for the offer of the shares of the Company on the GEM of the Stock Exchange (the "**Share Offer**"). Before the completion of the Group Reorganisation, the operation of the Group was carried out by Million Easy, which was wholly and directly owned by Mr. Cheuk and Mrs. Cheuk, the controlling shareholder of the Company.

The Reorganisation involved the setting up the Company, Beyond Blossom Investments Limited ("**Beyond Blossom**"), Precise Time Global Limited ("**Precise Time**"), Big Hope Investments Limited ("**Big Hope**"), Diamond Fountain Investments Limited ("**Diamond Fountain**") and interspersing the Company, Vast Peak Enterprises Limited ("**Vast Peak**"), Talent Gift International Limited ("**Talent Gift**"), 3 Wells Watch Industries Limited ("**3 Wells**"), Cheer China Group Holdings Limited ("**Cheer China**"), Cheer Wells Trading Limited ("**Cheer Wells**"), Creative Profit Investment Limited ("**Creative Profit**"), Shenzhen 3 Wells Watch Company Limited ("**Shenzhen 3 Wells**"), Mr. Cheuk and Mrs. Cheuk, is continued to be controlled by Mr. Cheuk and Mrs. Cheuk and is regarded as a continuing entity. Accordingly, 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 include 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 Group Reorganisation had been in existence throughout the Track Record Period, or since their respective dates of incorporation, where is a shorter period. The consolidated statements of financial position of the Group as at 31 December 2016 and 31 December 2017 have been prepared to present the assets and liabilities of the companies now comprising the Group as if the current group structure upon completion of the Group Reorganisation had been in existence at those dates taking into account the respective dates of incorporation, where applicable.

All intra-group transactions and balances have been eliminated on combination.

3. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS

The Historical Financial Information has been prepared under the historical cost except for certain properties and financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below. The accounting policies set out below have been consistently applied throughout the Track Record Period.

The Historical Financial Information has been prepared in accordance with HKFRSs (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the HKICPA, and accounting principles generally accepted in Hong Kong.

For the purpose of preparing and presenting the Historical Financial Information for the Track Record Period, the Group has consistently adopted the HKFRSs issued by the HKICPA that are effective for the accounting period beginning on 1 January 2017 throughout the Track Record Period.

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

HKFRS 9	Financial Instruments ¹
HKFRS 15	Revenue from Contracts with Customers and the related Amendments ¹
HKFRS 16	Leases ²
HKFRS 17	Insurance Contracts ³
HKFRS 2 (Amendments)	Classification and Measurement of Share-Based Payment Transaction ¹
HKFRS 4 (Amendments)	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts ¹
HKFRS 10 and HKAS 28 (Amendments)	Sales or Contribution of Assets between an Investor and its Associate or Joint Venture ²
HKFRSs (Amendments)	Annual Improvements to HKFRSs 2014–2016 Cycle ⁴
HKAS 40 (Amendments)	Transfers of Investment Property ¹
HK (IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration ¹
HK (IFRIC) – Int 23	Uncertainty over Income Tax Treatments ²

¹ Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.

² Effective for annual periods beginning on or after 1 January 2019, with earlier application permitted.

³ Effective for annual periods beginning on or after 1 January 2021.

HKFRS 9 “Financial instruments”

HKFRS 9 issued in 2009 introduced new requirements for the classification and measurement of financial assets. HKFRS 9 was subsequently amended in 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and further amended in 2013 to include the new requirements for general hedge accounting. Another revised version of HKFRS 9 was issued in 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a fair value through other comprehensive income (“FVTOCI”) measurement category for certain simple debt instruments.

Key requirement of HKFRS 9 are described below:

- All recognised financial assets that are within the scope of HKAS 39 “Financial Instruments: Recognition and Measurement” are subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the

principal amount outstanding, are measured at FVTOCI. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.
- In relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.
- The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an "economic relationship". Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The Group will apply HKFRS 9 from the annual periods beginning on 1 January 2018, with practical expedients permitted under the standard, and accordingly will not restate comparative periods in the year of initial application.

Expected impacts of the new requirements on the Group's financial statements are as follows:

Classification and measurement:

HKFRS 9 contains three principal classification categories for financial assets: measured at (1) amortised cost, (2) fair value through profit or loss ("FVTPL") and (3) FVTOCI.

Based on the preliminary assessment, the Group expects that its financial assets currently measured at FVTPL and FVTOCI will continue with their respective classification and measurements upon the adoption of HKFRS 9.

The classification and measurement requirements for financial liabilities under HKFRS 9 are largely unchanged from HKAS 39, except that HKFRS 9 requires the fair value change of a financial liability designated at FVTPL that is attributable to changes of that financial liability's own credit risk to be recognised in other comprehensive income (without reclassification of profit or loss). The Groups currently does not have any financial liabilities designated at FVTPL and therefore considers the initial application of HKFRS 9 will not have a significant impact on the Group's results of operations and financial position.

Impairment:

The new impairment model in HKFRS 9 replaces the “incurred loss” model in HKAS 39 with an “expected credit loss” model. Under the expected credit loss model, it will no longer be necessary for a loss event to occur before an impairment loss is recognised. Instead, an entity is required to recognise and measure expected credit losses as either 12-month expected credit losses or lifetime expected credit losses, depending on the asset and the facts and circumstances. This new impairment model may result in an earlier recognition of credit losses on the Group’s trade receivables and other financial assets. Based on the preliminary assessment, the Group considers that the adoption of the new impairment requirements will not have a significant impact on the Group’s results of operation and financial position.

HKFRS 15 “Revenue from Contracts with Customers”

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 “Revenue”, HKAS 11 “Construction Contracts” and the related interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, HKFRS 15 introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when “control” of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

In 2016, the HKICPA issued clarification to HKFRS 15 in relation to identification of performance obligations, principal versus agent consideration, as well as licensing application guidance.

The current revenue recognition model based on an approach of transfer of risk and rewards to an approach based on transfer of control. HKFRS 15 provides specific guidance on capitalization of contract cost and licence arrangements. It also includes a cohesive set of disclosure requirements about the nature, amounts, timing and uncertainty of revenue and cash flows arising from the entity’s contracts with customers. Under HKFRS 15, an entity recognises revenue when a performance obligation is satisfied. The Group will adopt the new standard using modified retrospective approach which means that the cumulative impact of the adoption will be recognised in the opening retained earnings at 1 January 2018 and the comparative information for the year ended 31 December 2016 and 2017 will not be restated. Based on the preliminary assessment, the directors of the Company anticipate that the application of HKFRS 15 in the future may result in more disclosures. However, the directors of the Company do not anticipate that the application of HKFRS 15 will have a material impact on the timing and amounts of revenue recognised in a reporting period and consider that the Group will recognise the revenue under HKFRS 15 similar to its current revenue recognition policy.

HKFRS 16 “Leases”

HKFRS 16, which upon the effective date will supersede HKAS 17 “Leases”, introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Specifically, under HKFRS 16, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognise depreciation of the right-of-use asset and interest on the lease liability, and also classify cash repayments of the lease liability into a principal portion and an interest portion and present them in the statement of cash flows. Also, the right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to extend the lease, or not to exercise an option to terminate the lease. This accounting treatment is significantly different from the lessee accounting for lease that are classified as operating leases under the predecessor standard, HKAS 17.

As set out in Note 34, total operating lease commitments of the Group in respect of its factory as at 31 December 2016 and 2017 were amounting to approximately HK\$2,981,000 and HK\$1,632,000 respectively. The directors of the Company do not expect the adoption of HKFRS 16 as compared with the current accounting policy would result in significant impact on the Group’s results but it is expected that certain portion of these commitments will be required to be recognised in the consolidated statement of financial position as right-of-use assets and lease liabilities.

The directors of the Company anticipate that the application of other new and amendments to HKFRSs will have no material impact on the Historical Financial Information.

4. SIGNIFICANT ACCOUNTING POLICIES**Basis of presentation**

The Historical Financial Information has been prepared on the historical cost basis except for investment properties and available-for-sale financial assets which are measured at fair value at the end of each reporting period. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in the Historical Financial Information is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 “Share-based payment”, leasing transactions that are within the scope of HKAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 “Inventories” or value in use in HKAS 36 “Impairment of assets”.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies adopted are set out below.

Merger accounting for common control combination

The Historical Financial Information incorporates the financial statements items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are combined using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or 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 includes 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 common control combination.

Intra-group transactions, balances and unrealised gains on transactions between the combining entities or business are eliminated. Unrealised losses are eliminated but considered as an impairment indicator of the asset transferred. Accounting policies of combining entities or business have been changed where necessary to ensure consistency with the policies adopted by the Group.

Transaction costs, including professional fees, registration fees, cost of furnishing information to shareholders, costs or losses incurred in combining operations of the previously separate businesses, etc., incurred in relation to the common control combination that is to be accounted for by using merger accounting are recognised as an expense in the period in which they are incurred.

Basis of consolidation

The Historical Financial Information incorporates the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the Track Record Period are included in the consolidated statements of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intra-group assets, liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

The equity method of accounting is used to account for the acquisition of subsidiaries by the Group which qualifies as business combination, except for those acquisitions which qualify as a common control combination and are therefore accounted for using the merger accounting.

Under the equity method of accounting, subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange and, all acquisition-related costs are expensed. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree at the non-controlling interest's proportionate share of the acquiree's net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the consolidated statements of profit or loss and other comprehensive income.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated.

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policy adopted by the Group.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably on the following bases:

(i) Sales of goods

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.

(ii) Rental income

Rental income, including rentals invoiced in advance, from properties let under operating leases is recognised on a straight-line basis over the period of the respective leases.

(iii) Interest income

Interest income from a financial asset (other than a financial asset at fair value through profit or loss) 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 estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Inventories

Inventories are stated at the lower of cost and net realisable value. The cost of inventories is computed using the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Property, plant and equipment

Property, plant and equipment are stated at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of assets less their residual values over their useful lives, using the straight-line method. The estimated useful lives and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

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.

The property, plant and equipment, are depreciated over their estimated useful lives, after taking into account of their residual value, on a straight-line basis at the following rates per annum:

Leasehold improvement	20% or over the lease terms, if shorter
Plant and machinery	10–20%
Furniture, fixtures and equipment	20%
Motor vehicles	20%
Leasehold building	over the lease term

Depreciation method, useful lives and residual values are reassessed at the end of each reporting period.

Investment property

Investment properties are properties held to earn rentals and/or for capital appreciation. Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value. All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are accounted for as investment properties and are measured using the fair value model. Gains and losses arising from changes in the fair value of investment properties are included in profit or loss in 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 the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and reward of ownership to the lessee. All other leases are classified as operating leases.

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

Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statements of financial position as an obligation under finance leases.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see the accounting policy below). Contingent rentals are recognised as expenses in the periods in which they incurred.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

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, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Impairment of assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, (if any). 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. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

When 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 cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

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 (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liability at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified as loans and receivables, available-for-sale ("AFS") financial assets and financial assets at fair value through profit or loss ("FVTPL"). The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees or points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

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. Loans and receivables (including trade receivables, deposits and other receivables, amount due from a director, amounts due from an ultimate holding company, amounts due from related parties, other financial assets, pledged bank deposits and cash and bank balances) are measured at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables when the effect of discounting is immaterial.

Available-for-sale financial assets ("AFS financial assets")

AFS financial assets are non-derivatives that are either designated as AFS or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

Equity and debt securities held by the Group that are classified as AFS financial assets and are traded in an active market are stated at fair value at the end of each reporting period. The Group also has investments in unlisted debentures that are not traded in an active market but that are also classified as AFS financial assets and stated at fair value at the end of each reporting period (because the directors consider that fair value can be reliably measured). Fair value is determined in the manner described in Note 40. Changes in the carrying amount of AFS monetary financial assets relating to changes in foreign currency rates (see below), interest income calculated using the effective interest method and dividends on AFS equity investments are recognised in profit or loss. Other changes in the carrying amount of available-for-sale financial assets are recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

Dividends on AFS equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established.

The fair value of AFS monetary financial assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate prevailing at the end of the reporting period. The foreign exchange gains and losses that are recognised in profit or loss are determined based on the amortised cost of the monetary asset. Other foreign exchange gains and losses are recognised in other comprehensive income.

AFS financial assets that do not have a quoted market price in active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment losses at the end of each reporting period.

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is (i) contingent consideration that may be paid by an acquirer as part of a business combination to which HKFRS 3 applies, (ii) held for trading, or (iii) it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading or contingent consideration that may be paid by an acquirer as part of a business combination may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the 'other income and other loss, net' line item. Fair value is determined in the manner described in Note 40.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For loans and receivables, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, 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, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets that are carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods (see the accounting policy below).

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. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in carrying amount of the allowance account are recognised in profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

For financial assets measured at amortised cost, 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 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 as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Financial liabilities

Financial liabilities including trade payables, bills payables, other payables and accrued expenses, amount due to a director, bank overdrafts, borrowings and obligation under finance lease are subsequently measured at amortised cost using the effective interest method.

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 and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial 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 derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety, the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise, and the part it that is no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

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 liability derecognised and the consideration paid and payable is recognised in profit or loss.

Related parties transactions

A party is considered to be related to the Group if:

- (a) A person or a close member of that person's family is related to the Group if that person:
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or of a parent of the Group;
- (b) an entity is related to the Group if any of the following conditions applies:
 - (i) the entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiaries is related to the others);
 - (ii) one entity is an associate or joint venture of the other entity for an associate or joint venture of a member of a group (which the other entity is a member);
 - (iii) both entity are joint ventures of the same third party;
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employees are also related to the Group;
 - (vi) the entity is controlled or jointly controlled by a person identified in (a);
 - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); or
 - (viii) the entity or any member of a group of which it is a part, provides key management personnel services to the Group or the Group's parent.

Close family members of an individual are those family members who may be expected to influence, or be influence by, that person in their dealing with the entity.

A transaction is considered to be a related party transaction when there is a transfer of resources, or obligations between the Group and a related party, regardless of whether a price is charged.

Cash and cash equivalents

For the purpose of the consolidated statements of cash flows, cash and cash equivalents comprise cash on hand and at banks that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statements of financial position, cash and cash equivalents comprise cash on hand and at banks, which are not restricted as to use.

Dividends

Dividends proposed by the directors are classified as a separate allocation of retained earnings within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Income taxes

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current income tax

The tax currently payable is based on taxable profit for the Track Record Period. Taxable profit differs from "profit before tax" as reported in the consolidated statements of profit or loss and other comprehensive income because items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of each reporting period.

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the Historical Financial Information and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profit 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 goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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 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.

Current and deferred tax for the Track Record Period

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than entity's the 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 in monetary items are recognised in profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- exchange differences on transactions entered into in order to hedge certain foreign currency risks (see the accounting policies below); and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss repayment of the monetary items.

For the purpose of presenting Historical 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 exchange reserve.

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In addition, in relation to a partial disposal of a subsidiary that includes a foreign operation that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of associates or joint arrangements that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Goodwill and fair value adjustments to identifiable assets acquired and liabilities assumed through acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in other comprehensive income.

Borrowing costs

All borrowing costs are recognised in profit or loss in the period in which they are incurred.

Retirement benefits costs

Payments to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

In accordance with the rules and regulations in the People's Republic of China (the "PRC"), the PRC based employees of the Group participate in various defined contribution retirement benefit plans organised by the relevant municipal and provincial governments in the PRC under which the Group and the employees are required to make monthly contributions to these plans calculated as a percentage of the employees' salaries, subject to certain ceiling. The municipal and provincial governments undertake to assume the retirement benefit obligations of all existing and future retired PRC based employees payable under the plans described above.

Other than the monthly contributions, the Group has no further obligation for the payment of retirement and other post-retirement benefits of its employees. The assets of these plans are held separately from the subsidiary in an independent fund managed by the PRC government.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

5. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES

In the application of the Group's accounting policies, which are described in Note 4, the directors of the Company are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The followings are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of each reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets or liabilities affected in the future.

Impairment of trade receivables

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. Where the actual future cash flows are less than expected, a material impairment loss may arise.

Income taxes

The Group is subject to income taxes in Hong Kong and PRC. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. The carrying amounts of the Group's current income tax payable and deferred tax assets as at 31 December 2016 and 2017 were approximately HK\$1,363,000 and HK\$693,000 and HK\$85,000 and HK\$139,000 respectively.

Property, plant and equipment

Items of property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual value. The Group reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

Write-down of inventories

Inventories are stated at the lower of cost and net realisable value at the end of the reporting period. Net realisable value is determined on the basis of the estimated selling price less the estimated costs necessary to make the sale. The management estimates the net realisable value for inventories based primarily on the latest invoice prices and current market conditions. In addition, the management performs an inventory review on a product-by-product basis at the end of the reporting period and assess the need for write-down of inventories.

6. SEGMENT INFORMATION

Information reported to the chief operating decision makers ("CODMs") for the purpose of resource allocation and assessment of segment performance focuses on types of goods or services delivered or provided. The Group currently operates in the manufacturing and trading business of watches. A single management team reports to the CODMs who comprehensively manages the entire business. Accordingly, the Group does not have separate reportable segments.

Geographical information

The Group's revenue is mainly derived from customers located in the Hong Kong, Brazil, United Arab Emirates ("UAE") and Turkey. The Group's revenue by the geographical location of the customers, determined based on the location to which the Group bills the customers, is detailed below:

	Year ended 31 December	
	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong	62,940	79,876
Brazil	20,513	31,755
UAE	7,108	9,842
Turkey	8,173	4,030
Others (<i>Note</i>)	53,158	49,314
	151,892	174,817
	151,892	174,817

Note: Other geographical locations are mainly located in Australia, Saudi Arabia and Germany.

The Group's business activities are conducted predominantly in Hong Kong and the PRC. Information about the Group's non-current assets* by the geographical location of the assets is detailed below:

	As at 31 December	
	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong	50,828	45,348
PRC	6,152	5,512
	56,980	50,860
	56,980	50,860

* *Non-current assets exclude deferred tax assets and available-for-sale financial assets.*

Revenue from major customers

Revenue from customers during the Track Record Period over 10% of the Group's total revenue are as follows:

	Year ended 31 December	
	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
Customer A	45,544	51,344
Customer B	19,200	25,226
	64,744	76,570
	64,744	76,570

7. REVENUE

	Year ended 31 December	
	2016	2017
	HK\$'000	HK\$'000
Finished watches	120,177	130,799
SKD kits	28,895	41,515
Watch parts	2,820	2,503
	<u>151,892</u>	<u>174,817</u>

8. OTHER INCOME AND OTHER LOSS, NET

	Year ended 31 December	
	2016	2017
	HK\$'000	HK\$'000
Interest income	659	355
Interest income from related parties and director	913	759
Rental income (<i>note</i>)	455	338
Exchange (loss)/gain, net	(55)	269
Sundry income	145	160
(Loss)/gain on disposal of investment property	(1,480)	600
Loss on disposal of property, plant and equipment, net	–	(3,080)
Net (loss)/gain arising from change in fair value of investment properties (<i>note 17</i>)	(436)	3,218
Impairment loss on available-for-sale financial assets, net (<i>note 18</i>)	(70)	–
Net loss arising from disposal of financial assets at FVTPL	–	(114)
	<u>131</u>	<u>2,505</u>

Note: During the years ended 31 December 2016 and 2017, direct operating expenses arising from investment properties that generated rental income were HK\$665,000 and HK\$262,000, respectively.

9. FINANCE COSTS

	Year ended 31 December	
	2016	2017
	HK\$'000	HK\$'000
Interest on:		
Borrowings wholly repayable		
within five years	4,786	4,491
Obligation under finance leases	14	8
Bank overdraft interest	533	211
	<u>5,333</u>	<u>4,710</u>

10. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging:

	Year ended 31 December	
	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
Directors' emoluments (<i>Note 11</i>)	4,666	4,776
Staff costs (excluded directors' emoluments)		
Salaries and other benefits	15,050	15,647
Bonuses	694	694
Retirement benefit scheme contributions	881	1,347
	<u>16,625</u>	<u>17,688</u>
Total staff costs	16,625	17,688
	<u>21,291</u>	<u>22,464</u>
Auditors' remuneration	219	219
Depreciation of property, plant and equipment (<i>Note 16</i>)	5,390	4,972
Written-off of inventories (<i>note</i>)	–	532
Cost of inventories recognised as expenses	93,365	112,732
Operating lease in respect of:		
– office equipment	208	203
– rental premises	1,692	2,008
Commission paid	2,712	2,338
	<u>2,712</u>	<u>2,338</u>

Note: Written-off of inventories were included in cost of sales.

11. DIRECTORS' EMOLUMENTS

Pursuant to the GEM Listing Rules and Section 383 of the Hong Kong and the Companies (Disclosure of Information about Benefits of Directors) Regulation (Cap. 622G), the aggregate amounts, the directors received remuneration from the subsidiaries now comprising the Group for their appointment as directors of these subsidiaries.

	Year ended 31 December	
	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
Directors' fees	–	–
Salaries and bonuses	4,220	4,060
Retirement benefit scheme contributions	54	54
Other short-term benefits	392	662
	<u>4,666</u>	<u>4,776</u>

The remuneration of each of these directors as recorded in the financial statements of the subsidiaries is set out below:

	Year ended 31 December 2016				
	Directors' fees	Salaries and bonuses	Retirement benefit scheme contributions	Other short-term benefits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Executive directors:					
Mr. Cheuk (<i>note (a)</i>)	–	2,250	18	392	2,660
Mrs. Cheuk (<i>note (b)</i>)	–	1,450	18	–	1,468
Ms. Cheuk Heide Oil-gei (“Ms. Heide Cheuk”) (<i>note (c)</i>)	–	520	18	–	538
	–	4,220	54	392	4,666

	Year ended 31 December 2017				
	Directors' fees	Salaries and bonuses	Retirement benefit scheme contributions	Other short-term benefits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Executive directors:					
Mr. Cheuk (<i>note (a)</i>)	–	1,950	18	662	2,630
Mrs. Cheuk (<i>note (b)</i>)	–	1,300	18	–	1,318
Ms. Heide Cheuk (<i>note (c)</i>)	–	810	18	–	828
	–	4,060	54	662	4,776

Notes:

- (a) Mr. Cheuk is the directors of Beyond Blossom, Precise Time, Big Hope, Diamond Fountain, Vast Peak, Talent Gift, 3 Wells, Cheer China, Cheer Wells, Creative Profit and Shenzhen 3 Wells during the Track Record Period and has been appointed as chairman, chief executive officer and executive director of the Company on 12 June 2017.
- (b) Mrs. Cheuk is the directors of Beyond Blossom, Precise Time, Big Hope, Diamond Fountain, Vast Peak, Talent Gift, 3 Wells, Cheer China, Cheer Wells, Creative Profit and Shenzhen 3 Wells during the Track Record Period and has been appointed as executive director of the Company on 12 June 2017.
- (c) Ms. Heide Cheuk has been appointed as executive director of the Company on 12 June 2017.

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the Track Record Period.

During the Track Record Period, there was no amount paid to or receivable by the directors as inducement to join or upon joining the Group, and there was no compensation paid to or receivable by the directors or past directors for loss of office, or as commitment fees to existing directors.

12. EMPLOYEES EMOLUMENTS AND SENIOR MANAGEMENT EMOLUMENTS

The five highest paid individuals during the years ended 31 December 2016 and 2017 (included 2 and 3 directors) respectively, and details of whose remuneration are set out in Note 11 above. Details of the remuneration of the remaining 3 and 2 highest paid individuals who are not directors during the Track Record Period are as follows:

	Year ended 31 December	
	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
Salaries, allowance and benefit in kind	1,481	1,632
Bonuses	369	559
Retirement benefit scheme contributions	54	58
	<u>1,904</u>	<u>2,249</u>

The number of non-director highest paid employees whose emoluments fell within the following bands is as follows:

	Year ended 31 December	
	2016	2017
	<i>Number of individuals</i>	<i>Number of individuals</i>
Nil to HK\$1,000,000	<u>3</u>	<u>2</u>

The number of senior management (excluding directors) whose emoluments fell within in the following bands is as follows:

	Year ended 31 December	
	2016	2017
	<i>Number of individuals</i>	<i>Number of individuals</i>
Nil to HK\$1,000,000	<u>5</u>	<u>5</u>

During the Track Record Period, no amount were paid by the Group to the 3 and 2 highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the 3 and 2 highest paid individuals have waived or agreed to waive any remuneration during the Track Record Period.

13. INCOME TAX EXPENSE

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands (the "BVI"), the Group is not subject to any income tax in the Cayman Islands and the BVI.

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for the Track Record Period.

For the years ended 31 December 2016 and 2017, the Group had unutilised tax losses of approximately HK\$1,572,000 and HK\$3,305,000 respectively, available to offset against future profits.

The subsidiary of the Group established in the PRC is generally subjected to PRC Enterprise Income Tax ("EIT") on its taxable income at an income tax rate of 25%.

	Year ended 31 December	
	2016 HK\$'000	2017 HK\$'000
Tax charge comprises:		
Current tax		
– Hong Kong Profits Tax	1,801	1,809
– PRC EIT	62	301
	1,863	2,110
Deferred tax (<i>Note 19</i>)		
– Hong Kong Profits Tax	(28)	(54)
	1,835	2,056
Income tax expense	1,835	2,056

A reconciliation of the income tax expense applicable to profit before tax at the statutory rate for jurisdiction in which the Company's and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates is as follows:

	Year ended 31 December	
	2016 HK\$'000	2017 HK\$'000
Profit before tax	5,902	6,016
Tax at the applicable income tax rates	977	1,045
Tax effect of non-taxable incomes	(261)	(785)
Tax effect of non-deductible expenses	1,108	1,476
Tax loss not recognised	39	322
Under-provision in previous year	–	52
Tax effect of temporary difference not recognised	(28)	(54)
	1,835	2,056
	1,835	2,056

14. DIVIDENDS

No dividend has been paid or declared by the Company since the date of its incorporation.

15. EARNINGS PER SHARE

The calculation of earnings per share for the year ended 31 December 2016 and 2017 are based on the profit for the year attributable to equity owners of the Company of approximately HK\$4,067,000 and HK\$3,960,000 respectively, and on the basis of 750,000,000 shares of the Company in issue, being the number of shares in issue immediately after the completion of capitalisation issue as described in the session headed "Share Capital" of the Prospectus, as if these shares had been issued throughout the Track Record Period.

Diluted earnings per share were same as the basic earnings per share as there were no potential dilutive ordinary shares in existence during the Track Record Period.

16. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvement <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Furniture, fixtures and equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Leasehold building <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost						
As at 1 January 2016	19,504	6,256	6,333	3,663	30,110	65,866
Additions	–	–	647	–	–	647
Exchange realignment	(351)	(383)	(157)	(17)	–	(908)
As at 31 December 2016 and 1 January 2017	19,153	5,873	6,823	3,646	30,110	65,605
Additions	1,983	522	783	1,398	–	4,686
Disposals	(7,222)	(637)	(1,035)	(1,015)	–	(9,909)
Exchange realignment	259	439	171	20	–	889
As at 31 December 2017	14,173	6,197	6,742	4,049	30,110	61,271
Accumulated depreciation						
As at 1 January 2016	8,326	3,472	3,796	2,805	3,232	21,631
Charge for the year	3,207	341	741	278	823	5,390
Exchange realignment	(139)	(227)	(131)	(17)	–	(514)
As at 31 December 2016 and 1 January 2017	11,394	3,586	4,406	3,066	4,055	26,507
Charge for the year	2,869	358	746	176	823	4,972
Eliminate on disposal of assets	(3,960)	(606)	(969)	(1,015)	–	(6,550)
Exchange realignment	92	262	119	9	–	482
As at 31 December 2017	10,395	3,600	4,302	2,236	4,878	25,411
Carrying amount						
As at 31 December 2016	7,759	2,287	2,417	580	26,055	39,098
As at 31 December 2017	3,778	2,597	2,440	1,813	25,232	35,860

All the Group's leasehold building are situated in Hong Kong.

As at 31 December 2016 and 2017, the carrying amount of motor vehicles included an amount of HK\$580,000 and HK\$1,186,000, respectively in respect of assets held under finance leases.

The Group has pledged property, plant and equipment with a carrying amount of approximately HK\$25,647,000 and HK\$24,838,000 as at 31 December 2016 and 31 December 2017, respectively, to secure general banking facilities granted to the Group as disclosed in Note 35.

17. INVESTMENT PROPERTIES

	As at 31 December	
	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
<i>Fair value</i>		
Balance at beginning of year	26,798	17,882
Disposals	(8,480)	(6,100)
Net (loss)/gain arising from change in fair value of investment properties	(436)	3,218
	<u>17,882</u>	<u>15,000</u>
Balance at end of year	<u>17,882</u>	<u>15,000</u>

The Group's property interests held under operating leases to earn rental income or for capital appreciation purpose are measured using the fair value model and are classified and accounted for as investment properties.

The investment properties shown above comprises:

	As at 31 December	
	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
In Hong Kong		
– medium-term leases	<u>17,882</u>	<u>15,000</u>

The fair value of the Group's investment properties as at 31 December 2016 and 31 December 2017 at HK\$17,882,000 and HK\$15,000,000, respectively has been arrived at on the basis of a valuation carried out on the respective dates by Assets Appraisal Limited for Hong Kong properties, independent qualified professional valuer not connected to the Group who have appropriate qualifications and recent experience in the valuation of similar properties in the relevant locations.

There has been no change to the valuation technique during the Track Record Period.

In estimating the fair value of the properties, the highest and best use of the properties is their current use.

The fair value was determined based on direct comparison method assuming sale of the property interest in its existing state and making references to comparable market observable transactions of similar properties in similar locations and conditions as available in the relevant market. Those comparable properties are analysed and carefully weighed against all respective advantages and disadvantages of each property in order to arrive at a fair comparison of value.

The investment properties are leased to third parties under operating leases, further summary details of which are included in Note 34 to the financial statements.

The Group's investment properties with an aggregate carrying amount of HK\$17,882,000 and HK\$15,000,000 as at 31 December 2016 and 31 December 2017, was pledged to secure general banking facilities granted to the Group as disclosed in Note 35.

Fair value hierarchy

The following table illustrates the fair value measurement hierarchy of the Group's investment properties:

	Fair value measurement using significant unobservable inputs (Level 3)	
	As at 31 December	
	2016 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Recurring fair value measurement for:		
– Industrial properties located in Hong Kong	11,782	15,000
– Residential property located in Hong Kong	6,100	–
	17,882	15,000
	17,882	15,000

The fair values of the Group's investment properties as at 31 December 2016 and 31 December 2017 are estimated by using significant unobservable inputs and the fair value measurement is categorised under Level 3.

During the Track Record Period, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfer into or out of Level 3.

For investment properties categories into Level 3 of the fair value hierarchy, the following information is relevant:

Class of property	Fair value hierarchy	Valuation technique	Significant unobservable input(s)	Sensitivity
Properties located in Hong Kong	Level 3	Direct comparison method	Compare properties of similar size, character and location are analysed and carefully weighted against all the respective advantages and disadvantages of each property in order to arrive at a fair comparison of capital values. Market unit value, taking into account the differences in location, and individual factor, such as frontage, location and size, between the comparables and the property.	A slight increase in the market price would result in a significant increase in fair value, and vice versa.

Reconciliation of fair value measurements categorised within Level 3 of the fair value hierarchy:

	Industrial properties in Hong Kong HK\$'000	Residential properties in Hong Kong HK\$'000	Total HK\$'000
Carrying amount at 1 January 2016	12,218	14,580	26,798
Disposal	–	(8,480)	(8,480)
Fair value changes	(436)	–	(436)
	<u>11,782</u>	<u>6,100</u>	<u>17,882</u>
Carrying amount at 31 December 2016 and 1 January 2017	11,782	6,100	17,882
Disposal	–	(6,100)	(6,100)
Fair value changes	3,218	–	3,218
	<u>15,000</u>	<u>–</u>	<u>15,000</u>
Carrying amount at 31 December 2017	<u>15,000</u>	<u>–</u>	<u>15,000</u>

18. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	As at 31 December	
	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted club debentures	<u>440</u>	<u>440</u>

The club memberships are classified as available-for-sale investments are stated at fair value. As at 31 December 2016 and 31 December 2017, the fair value of the club membership is arrived on the basis of a valuation carried out by an independent professional valuer. During the year ended 31 December 2016, an impairment loss of HK\$70,000 was reclassified from available-for-sale revaluation reserve to profit or loss.

19. DEFERRED TAX ASSETS

	Accelerated depreciation tax HK\$'000	Tax losses HK\$'000	Total HK\$'000
As at 1 January 2016	(82)	139	57
Credit to profit or loss during the year (Note 13)	28	–	28
	<u>(54)</u>	<u>139</u>	<u>85</u>
As at 31 December 2016 and 1 January 2017	(54)	139	85
Credit to profit or loss during the year (Note 13)	54	–	54
	<u>–</u>	<u>139</u>	<u>139</u>
As at 31 December 2017	<u>–</u>	<u>139</u>	<u>139</u>

20. OTHER FINANCIAL ASSETS

	As at 31 December	
	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
Key management personnel life insurance policies	16,324	16,673

On 19 September 2013, a subsidiary of the Company has entered into a life insurance policies (the "Policies") to insure directors of the Company, Mr. Cheuk and Mrs. Cheuk. Under the policies, the beneficiary and policy holder is a subsidiary of the Company and the total insured sum is USD5,000,000 (equivalent to approximately HK\$38,750,000). The Group is required to pay an upfront deposit of USD1,936,757 (equivalent to approximately HK\$15,010,000). The Group can terminate the Policies at any time and receive cash back based on the cash value of the Policies at the date of withdrawal, which is determined by the upfront payments plus accumulated interest earned and minus the accumulated insurance charge and policy expense charge. The Group receives an interest at interest rates guaranteed by the insurer.

The other financial assets are carried at amortised cost using the effective interest method, less any identified impairment loss. Interest income on Policies is recognised in the consolidated statement of profit or loss and other comprehensive income.

The entire amount of the rights under life insurance policies is denominated in United States Dollar.

The Group has pledged the Policies as at 31 December 2016 and 31 December 2017 to secure general banking facilities granted to the Group as disclosed in Note 35.

21. INVENTORIES

	As at 31 December	
	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
Raw material	5,562	7,725
Work in progress	8,258	4,796
Finished goods	2,426	1,910
	16,246	14,431

22. TRADE RECEIVABLES

	As at 31 December	
	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivables	22,884	49,518
Less: accumulated provision for impairment	(394)	(394)
	22,490	49,124

The Group generally allows credit period ranging from 30 days to 90 days to its customers.

The aged analysis (based on invoice date) of the Group's trade receivables (after provision of impairment) as at the end of each of reporting period is as follows:

	As at 31 December	
	2016	2017
	HK\$'000	HK\$'000
0 to 30 days	13,016	20,759
31 to 60 days	7,640	13,666
61 to 90 days	204	7,792
Over 90 days	1,630	6,907
	<u>22,490</u>	<u>49,124</u>

	As at 31 December	
	2016	2017
	HK\$'000	HK\$'000
HKD	2,282	8,138
USD	20,207	39,428
RMB	1	1,558
	<u>22,490</u>	<u>49,124</u>

The Group has policy of allowing its trade customers with credit period normally ranging 30 to 90 days or in accordance with agreed terms of the contracts with customers. However, for certain customers with long-established relationship and good repayment records, a long credit period may be granted more than 90 days.

The Group has a policy for allowance of impairment which is based on the evaluation of collectability and aging analysis of accounts and on management's judgement including the creditworthiness and the past collection history of each customer.

Movement in the accumulated provision for impairment on trade receivables is as follow:

	As at 31 December	
	2016	2017
	HK\$'000	HK\$'000
Balance as at beginning of year	394	394
Provision for impairment allowance	<u>—</u>	<u>—</u>
Balance as at end of year	<u>394</u>	<u>394</u>

Included in the Group's trade receivables balance are debtors with aggregate carrying amount of approximately HK\$7,514,000 and HK\$16,307,000 as at 31 December 2016 and 2017, 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 not impaired at the end of the reporting period:

	As at 31 December	
	2016	2017
	HK\$'000	HK\$'000
Neither past due nor impaired	14,976	33,780
Past due less than 30 days	2,397	6,579
Past due 31 to 60 days	3,957	4,456
Past due 61 to 90 days	357	2,966
Past due over 90 days	803	1,343
	<u>22,490</u>	<u>49,124</u>

Based on the historical experience of the Group, trade receivables that are past due but not impaired are generally recoverable.

The Group's policy for impairment loss on trade receivables is based on an evaluation of collectability and ageing analysis of the receivables which requires the use of judgment and estimates. Provisions are applied to the receivables when there are events or changes in circumstances indicate that the balances may not be collectible. The management closely reviews the trade receivable balance and any overdue balances on an ongoing basis and assessments are made by the management on the collectability of overdue balances.

23. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	As at 31 December	
	2016	2017
	HK\$'000	HK\$'000
Other receivables (<i>Note</i>)	193	338
Deposits	385	695
Prepayments	<u>4,721</u>	<u>2,286</u>
	<u>5,299</u>	<u>3,319</u>

Note: Included in other receivables, there is an amount due from Smart Hill Enterprises Limited ("Smart Hill") which Mrs. Cheuk's sister is the beneficial owner. As at 31 December 2017, the amount approximately of HK\$192,000 is unsecured, non-interest bearing, non-trade nature and recoverable on demand.

24. AMOUNT DUE FROM/(TO) A DIRECTOR

Particulars of amounts due from/(to) a director are disclosed as follows:

	As at 31 December		Maximum outstanding balance during the year ended 31 December	
	2016	2017	2016	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Mr. Cheuk	23,396	(26)	27,957	23,396

The amount due from Mr. Cheuk is unsecured, interest bearing in HIBOR, non-trade nature and recoverable on demand.

The amount due to Mr. Cheuk is unsecured, non-interest bearing, non-trade nature and repayable on demand.

25. AMOUNTS DUE FROM AN ULTIMATE HOLDING COMPANY

	As at 31 December		Maximum outstanding balance during the year ended 31 December	
	2016	2017	2016	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Million Easy (<i>note a</i>)	7,862	11,118	16,364	11,118

Note:

- (a) Million Easy is a limited company incorporated in BVI that is 50% owned by Mr. Cheuk and 50% owned by Mrs. Cheuk.

The amounts due from an ultimate holding company are unsecured, interest bearing in HIBOR, non-trade nature and recoverable on demand.

During the year ended 31 December 2017, after reorganisation on 4 August 2017, Million Easy became the Group's ultimate holding company.

26. AMOUNT DUE FROM RELATED PARTIES

Amounts due from related parties

Particulars of amounts due from related parties are disclosed as follows:

	As at 31 December		Maximum outstanding balance during the year ended 31 December	
	2016	2017	2016	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
3 Wells Group Holdings Limited (B.V.I.) ("3 Wells Group") (note a)	6,660	–	6,660	6,660
Billion Start Enterprise Limited ("Billion Start") (note b)	14,656	–	19,752	14,656
Yau Tong Group Limited ("Yau Tong") (note c)	14	–	14	14
	21,330	–		
	21,330	–		

Notes:

- (a) 3 Wells Group is a limited company incorporated in BVI that is 50.5% owned by Mr. Cheuk and 49.5% owned by Mrs. Cheuk.

The amounts due from 3 Wells Group are unsecured, interest bearing in HIBOR, non-trade nature and recoverable on demand.

- (b) Billion Start is a limited company incorporated in Hong Kong that is direct wholly-owned subsidiary of Yau Tong.

The amounts due from Billion Start are unsecured, interest bearing in HIBOR, non-trade nature and recoverable on demand.

- (c) Yau Tong is a limited company incorporated in BVI that is direct wholly-owned subsidiary of Million Easy.

The amounts due from Yau Tong are unsecured, interest bearing in HIBOR, non-trade nature and recoverable on demand.

27. CASH AND BANK BALANCES AND PLEDGED BANK DEPOSITS

For the purposes of the consolidated statements of cash flows, cash and cash equivalents include cash on hand and in banks, net of outstanding bank overdrafts. Cash and cash equivalents at the end of the reporting period as shown in the consolidated statements of cash flows can be reconciled to the related items in the consolidated statements of financial position as follows:

	As at 31 December	
	2016	2017
	HK\$'000	HK\$'000
Cash and bank balances	10,593	9,431
Bank overdrafts (<i>Note 30</i>)	(9,513)	(1,013)
	<u>1,080</u>	<u>8,418</u>

Cash and bank balances comprise cash held by the Group and short-term bank deposits. Bank balances carry interest at prevailing market rate ranging from 0.35% to 1.00% and 0.35% to 1.75% per annum as at 31 December 2016 and 31 December 2017, respectively.

Cash at banks earns interest at floating rates based on daily bank deposit rates.

The Group have Renminbi (“RMB”), HKD, Euro dollar (“EURO”), Canadian dollar (“CAD”) and United States Dollar (“USD”) denominated cash and bank balances, which expose the Group to foreign currency risk. RMB is not freely convertible into other currencies. The carrying amounts of the Group’s RMB, EURO, CAD and USD denominated monetary assets at the end of the reporting period are as follows:

	As at 31 December	
	2016	2017
	HK\$'000	HK\$'000
RMB	102	590
EURO	2	–
CAD	1,450	–
USD	3,887	16

Pledged bank deposits represent deposits pledged to banks to secure banking facilities granted to the Group. As at 31 December 2016 and 31 December 2017, the Group has bank deposits of approximately HK\$Nil and HK\$28,505,000 are pledged to secure banking facility and are therefore classified as current assets. The pledged bank deposits will be released upon the settlement of relevant bank borrowings. The balance as at 31 December 2017 were carried at the prevailing market interest rate at 1% per annum and it was denominated in HKD.

28. TRADE PAYABLES AND BILLS PAYABLES

	As at 31 December	
	2016	2017
	HK\$'000	HK\$'000
Trade payables	38,893	33,722
Bills payables	21,296	18,493
	<u>60,189</u>	<u>52,215</u>

The credit period on trade payables is generally 30 to 120 days. The Group has financial risk management policies in place to ensure that all payables are paid within the credit time frame.

The following is an aged analysis of trade payables presented based on the invoice date at the end of each reporting period:

	As at 31 December	
	2016	2017
	HK\$'000	HK\$'000
0 to 30 days	6,038	6,957
31 to 60 days	7,778	10,900
61 to 90 days	8,235	10,238
91 to 120 days	9,149	5,275
Over 120 days	7,693	352
	<u>38,893</u>	<u>33,722</u>

Bills payables are all mature within 30 to 120 days. The following is an aged analysis of bills payables presented based on the date of bills at the end of each reporting period:

	As at 31 December	
	2016	2017
	HK\$'000	HK\$'000
0 to 30 days	12,123	6,529
31 to 60 days	5,678	9,696
61 to 90 days	3,172	2,268
91 to 120 days	323	–
	<u>21,296</u>	<u>18,493</u>

29. OTHER PAYABLES, RECEIPTS IN ADVANCE AND ACCRUED EXPENSES

	As at 31 December	
	2016	2017
	HK\$'000	HK\$'000
Salary and bonus payables	2,729	2,695
Other payables (<i>Note</i>)	2,687	273
Receipts in advance	5,606	6,058
Accrued expenses	1,730	2,446
	<u>12,752</u>	<u>11,472</u>

Note: Included in other payable, there is an amount due to Smart Hill which Mrs. Cheuk's sister is the beneficial owner. As at 31 December 2016, the amount approximately of HK\$1,328,000 is unsecured non-interest bearing, non-trade nature and repayable on demand.

30. BORROWINGS

	As at 31 December	
	2016	2017
	HK\$'000	HK\$'000
Current – secured		
Bank overdrafts (<i>note (d) and (e)</i>)	9,513	1,013
Bank loans (<i>note (a), (b), (c) and (d)</i>)	<u>69,558</u>	<u>64,091</u>
	79,071	65,104
Non-current – secured		
Bank loans (<i>note (d)</i>)	<u>–</u>	<u>22,000</u>
Total borrowings	<u>79,071</u>	<u>87,104</u>

According to the repayment schedule, the bank loans and bank overdrafts are repayable as follows:

	As at 31 December	
	2016	2017
	HK\$'000	HK\$'000
Within one year	70,419	59,031
Over one year but within two years	3,201	24,977
Over two year but within five years	5,292	2,642
Over five years	<u>159</u>	<u>454</u>
	79,071	87,104
Less: amount classified as current liabilities secured borrowings due within one year or contain a repayment on demand clause	<u>(79,071)</u>	<u>(65,104)</u>
Amount classified as non-current liabilities	<u>–</u>	<u>22,000</u>

The fixed-rate and variable-rate borrowings are as follows:

	As at 31 December	
	2016	2017
	HK\$'000	HK\$'000
Fixed-rate borrowings (note (a))	235	–
Variable-rate borrowings (note (b), (c) and (d))	78,836	87,104
	79,071	87,104
	79,071	87,104

Notes:

- (a) The installment loan facility (“Facility I”) of approximately HK\$235,000 and HK\$Nil as at 31 December 2016 and 2017 respectively. As at 31 December 2016, Facility I was guaranteed by Mr. Cheuk and Mrs. Cheuk. Facility I bear fixed interest at 4.7% per annum for the year ended 31 December 2016.
- (b) The universal life insurance loan and factoring facility (“Facility II”) of approximately HK\$6,435,000 and HK\$4,827,000 as at 31 December 2016 and 2017 respectively. As at 31 December 2016 and 2017, Facility II was guaranteed by Mr. Cheuk and Mrs. Cheuk, corporate guarantee by Creative Profit, a subsidiary of the Group and secured by the Policies with carrying amount of approximately HK\$16,324,000 and HK\$16,673,000 as at 31 December 2016 and 2017 respectively. Facility II bear interest ranged from 2.0% to 3.2% and 2.3% to 2.6% per annum for the year ended 31 December 2016 and 2017, respectively.
- (c) The term loan, property mortgage, overdraft and factoring facility (“Facility III”) of approximately HK\$25,340,000 and HK\$20,716,000 as at 31 December 2016 and 2017 respectively. As at 31 December 2016, Facility III was guaranteed by Mr. Cheuk and Mrs. Cheuk and secured by the Billion Start’s property and Mr. Cheuk’s properties. As at 31 December 2017, Facility III was guaranteed by Mr. Cheuk and Mrs. Cheuk and corporate guaranteed by Billion Start. Facility III bear interest ranged from 2.7% to 6.0% and 3.1% to 6.0% per annum for the year ended 31 December 2016 and 2017, respectively.
- (d) The term loan, overdraft and factoring facility (“Facility IV”) of approximately HK\$47,061,000 and HK\$61,561,000 as at 31 December 2016 and 2017 respectively. As at 31 December 2016, Facility IV was guaranteed by Mr. Cheuk and Mrs. Cheuk, secured by the property, plant and equipment with carrying amount of approximately HK\$25,647,000 and investment properties with carrying amount of approximately HK\$17,882,000 as at 31 December 2016. As at 31 December 2017, Facility IV was guaranteed by Mr. Cheuk and Mrs. Cheuk, secured by the property, plant and equipment with carrying amount of approximately HK\$24,838,000, investment property with carrying amount of approximately HK\$15,000,000 and bank deposits HK\$28,505,000 as at 31 December 2017. Facility IV bear interest ranged from 2.8% to 7.8% and 2.8% to 5.5% per annum for the year ended 31 December 2016 and 2017, respectively.
- The loan approximately of HK\$22,000,000 was shown as non-current with the maturity date on 23 June 2019, 18 August 2019, 29 August 2019 and 30 August 2019, respectively.
- (e) The amounts due are based on the scheduled repayment dates set out on the loan agreement.

31. OBLIGATION UNDER FINANCE LEASES

The Group leased its motor vehicles under finance leases with lease term of three years. Interest rate underlying obligation under finance leases is variable at 4.4% and 4.9% per annum as at 31 December 2016 and 31 December 2017 respectively.

No arrangement has been entered into for contingent rental payments.

	Minimum lease payments		Present value of minimum lease payments	
	As at 31 December		As at 31 December	
	2016	2017	2016	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Amount payable under financial leases:				
Within one year	209	171	204	167
Within a period of more than one year but not more than two years	17	154	16	143
Within a period of more than two years but not more than five years	–	372	–	320
	226	697	220	630
Less: future financial charge	(6)	(67)	–	–
Present value of lease obligation	<u>220</u>	<u>630</u>	220	630
Less: Amount due for settlement within twelve months (shown under current liabilities)			<u>(203)</u>	<u>(144)</u>
Amount due for settlement after twelve months (shown under non-current liabilities)			<u>17</u>	<u>486</u>

The Group's obligation under the finance leases are secured by the lessor's charge over the leased assets.

32. SHARE CAPITAL

For the purpose of the presentation of the consolidated statements of financial position, the balance of the share capital as at 31 December 2016 represents the aggregate amount of issued share capital of 3 Wells, Cheer China, Cheer Wells, Vast Peak and Talent Gift comprising the Group prior to establishment of the Company.

As at 31 December 2017, the Company was incorporated on 12 June 2017 with authorised share capital of HK\$380,000 divided into 38,000,000 shares of HK\$0.01 each. On the date of incorporation, 1 ordinary share was allotted and issued to the initial subscriber of the Company upon its incorporation.

33. RESERVE OF THE COMPANY

	Accumulated loss <i>HK\$'000</i>	Total <i>HK\$'000</i>
As at 12 June 2017 (date of incorporation)	–	–
Loss and total comprehensive loss for the period	<u>4,918</u>	<u>4,918</u>
As at 31 December 2017	<u><u>4,918</u></u>	<u><u>4,918</u></u>

34. OPERATING LEASE COMMITMENTS**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 which fall due as follows:

	As at 31 December	
	2016 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Within one year	1,703	891
More than one year, but not more than five years	<u>1,278</u>	<u>741</u>
	<u><u>2,981</u></u>	<u><u>1,632</u></u>

The Group leases PRC factory under non-cancellable operating leases. The leases run for an initial period of 2 to 5 years, with options to renew the lease terms upon expiry when all terms are re-negotiated. None of these leases includes any contingent rentals.

The Group as lessor

Investment property was leased for a term of 2 year. At the end of each reporting period, the Group had contracted with a tenant for the following future minimum lease payments:

	As at 31 December	
	2016 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Within one year	<u>30</u>	<u>255</u>

The Group leases investment properties under non-cancellable operating leases. The leases run for an initial period of 2 to 3 years, with options to renew the lease terms upon expiry when all terms are re-negotiated. None of these leases includes any contingent rentals.

35. PLEDGE OF ASSETS

At the end of each reporting period, the following assets were pledged to bank secure the Group's banking facilities:

	As at 31 December	
	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
Property, plant and equipment	25,647	24,838
Other financial assets	16,324	16,562
Investment properties	17,882	15,000
Pledged bank deposits	–	28,505
	59,853	84,905
	59,853	84,905

36. RETIREMENT BENEFITS SCHEMES

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group in funds under the control of trustees. The Group contributes 5% of relevant payroll costs to the scheme, which contribution matched by employees but subject to a maximum amount of HK\$1,500 per month for each employee to the scheme.

Employees of the subsidiaries and an associate in the PRC are members of the state-sponsored pension scheme operated by the PRC government. The subsidiaries and an associate were required to contribute a certain percentage of the payroll of their staff to the pension scheme to fund the benefits. The only obligation of the Group with respect to the pension scheme is to make the required contributions. There were no forfeited contributions utilised to offset employers' contributions for the year. And at the end of the Track Record Period, there was no forfeited contribution available to reduce the contributions payable in the future years.

37. MAJOR NON-CASH TRANSACTIONS

- (a) The Group entered into the following major non-cash transactions which are not reflected in the consolidated statements of cash flows:

During the year ended 31 December 2017, the Group entered into finance leases in respect of an assets with a total value of HK\$776,000 at the inception of the finance leases.

During the year ended 31 December 2016, the Group obtained Facility III from a bank which was secured by, among others, the properties held by the director and Billion Start. During the year ended 31 December 2017, the Group, Billion Start and the director agreed with the bank to restructure the Facility III, pursuant to which Billion Start and the director to repay the amount of approximately HK\$25,004,000 to the Bank directly for the purpose of settlement of the Group's then borrowings under Facility III. Since the Group had already been an amount due from a director and Billion Start, they agreed to settle such borrowings under Facility III via offsetting amount due from a director and Billion Start of approximately HK\$13,483,000 and HK\$11,521,000, respectively during the year ended 31 December 2017.

(b) Reconciliation of liabilities arising from financial activities

Liabilities from financing activities

	Finance leases due within one year HK\$'000	Finance leases due after one year HK\$'000	Borrowing due within one year HK\$'000	Borrowing due after one year HK\$'000	Total HK\$'000
Net debt as at 1 January 2017	(203)	(17)	(69,558)	–	(69,778)
Cash flows	–	–	(19,537)	(22,000)	(41,537)
Acquisitions – finance leases and leases incentives	(137)	(486)	–	–	(623)
Other non-cash movements	196	17	25,004	–	25,217
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net debt as at 31 December 2017	<u>(144)</u>	<u>(486)</u>	<u>(64,091)</u>	<u>(22,000)</u>	<u>(86,721)</u>

38. RELATED PARTY TRANSACTIONS

In addition to the transactions and balance disclosed elsewhere in the Historical Financial Information, the Group entered into related parties transactions:

Name of related parties	Notes	Nature of transaction	Year ended 31 December	
			2016 HK\$'000	2017 HK\$'000
Recurring:				
Mr. Cheuk	(c)	Rental expense	–	360
Smart Hill	(a)	Rental income	198	188
Non-recurring:				
Mr. Cheuk	(c)	Interest income	351	261
Smart Hill	(a)	Commission paid	206	163
3 Wells Group	(b)	Interest income	86	64
Billion Start	(b)	Interest income	203	142
Million Easy	(b)	Interest income	273	292
			<u> </u>	<u> </u>

Notes:

- (a) Smart Hill is connected person which is wholly-owned by the sister of Mrs. Cheuk.
- (b) Mr. Cheuk and Mrs. Cheuk, directors of the Company, are the ultimate beneficial owner of the related company.
- (c) Mr. Cheuk, a director of the Company.

Compensation of key management personnel

The directors of the Company are identified as key management members of the Group and the compensation of directors and key management during the Track Record Period is set out in Note 11 and 12.

Financial guarantee given by related parties

Further details of financial guarantees provided by the directors and related parties are disclosed in Note 30.

Balances with connected person

The connected person Smart Hill in which the transaction with Smart Hill falls under the definition of "continuing connected transaction" in Chapter 20 of the GEM Listing Rules with a detailed disclosure of the relationship above.

39. CAPITAL MANAGEMENT

The Group manages its capital to ensure that the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged throughout the Track Record Period.

The capital structure of the Group consists of net debt, which includes the bills payables, amount due to a director, bank overdrafts, borrowings and obligation under finance leases disclosed in notes 28, 24, 30 and 31, respectively, net of cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital and reserves.

The directors of the Company review the capital structure regularly. As part of this review, the directors of the Company consider the cost of capital and the risks associated with each class of capital, and will balance its overall capital structure new share issues as well as the issue of new debt or the redemption of existing debt.

The following is the gearing ratio at the end of each reporting period:

	As at 31 December	
	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
Total borrowings (<i>Note (a)</i>)	100,587	106,253
Less: cash and cash equivalents (<i>Note (c)</i>)	<u>(10,593)</u>	<u>(37,936)</u>
Net debts	89,994	68,317
Total equity (<i>Note (b)</i>)	<u>27,450</u>	<u>31,900</u>
Gearing ratio	<u>328%</u>	<u>214%</u>

Notes:

- (a) Total borrowings represent bills payables, amount due to a director, bank overdrafts, borrowings and obligation under finance leases.
- (b) Total equity includes share capital and reserves at the end of each reporting period.
- (c) Cash and cash equivalents include pledge bank deposits and cash and bank balances.

40. FINANCIAL INSTRUMENTS

Categories of financial instruments

	As at 31 December	
	2016	2017
	HK\$'000	HK\$'000
Financial assets		
<i>Available-for-sale financial assets</i>	440	440
<i>Loans and receivables:</i>		
<i>(including cash and bank balances)</i>		
– Trade receivables	22,490	49,124
– Deposits and other receivables	578	1,033
– Amounts due from a director	23,396	–
– Amounts due from an ultimate holding company	7,862	11,118
– Amounts due from related parties	21,330	–
– Other financial assets	16,324	16,673
– Pledged bank deposits	–	28,505
– Cash and bank balances	10,593	9,431
	<u>103,013</u>	<u>116,324</u>
Financial liabilities		
<i>Financial liabilities measured at amortised cost:</i>		
– Trade payables	38,893	33,722
– Bills payables	21,296	18,493
– Other payables and accruals	7,146	5,414
– Amount due to a director	–	26
– Bank overdrafts	9,513	1,013
– Borrowings	69,558	86,091
– Obligation under finance leases	220	630
	<u>146,626</u>	<u>145,389</u>

Financial risk management objectives and policies

The Group's major financial instruments and details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and 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*Interest rate risk*

The Group is exposed to cash flow interest rate risk in relation to variable-rate borrowings and bank balances due to changes of interest rates.

The directors of the Company consider the Group's exposures of the bank balances are not significant as interest bearing bank balances are within short maturity period and thus they are not included in sensitivity analysis.

The Group currently does not have any interest rate hedging policy. However, management closely monitors its exposure to future cash flow interest rate risk as a result of changes in market interest rates will consider hedging changes in market interest rates should the need arise.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note.

Sensitivity analysis

As at 31 December 2016 and 2017, if the interest rate on all variable-rate borrowings had been 100 basis points higher/lower with all other variables held constant, the Group's profit after income tax for the year would have been decreased/increased by approximately HK\$1,537,000 and HK\$1,472,000 respectively.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of each of the Track Record Period and had been applied to the exposure to interest rate risk for the borrowings in existence at that date. The 100 basis point increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the end of next reporting period. The analysis is performed on the same basis during the Track Record Period.

Currency risk

The carrying amounts of the Group's monetary assets and liabilities (including bank balances, trade receivables and trade payables) denominated in currencies other than functional currency of the respective group entity at the end of each reporting period are as follows:

	Assets		Liabilities	
	As at 31 December		As at 31 December	
	2016	2017	2016	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
RMB	528	2,419	(1,508)	1,918

Sensitivity analysis

The following table details the Group's sensitivities to a 10% increase and decrease in the functional currency of the group entities against relevant foreign currency. 10% is the sensitivity rate which represents management's assessment of the reasonably possible change in foreign currency rate. The sensitivity analysis includes only outstanding RMB denominated monetary items and adjusts their translation at the end of the reporting period for a 10% change. A positive number indicates an increase in post-tax profit for the year HK\$ strengthens 10% against RMB. For a 10% weakening of HK\$ against RMB, there would be an equal but opposite impact on the post-tax profit for the year.

	As at 31 December	
	2016	2017
	HK\$'000	HK\$'000
RMB	94	50

In the opinion of the directors of the Company, the sensitivity analysis is unrepresentative of the inherent foreign currency risk as the exposures at the end of each reporting period do not reflect the exposure during the Track Record Period.

Credit risk

The Group's exposure to credit risk is primarily due to the collectability risk of the trade receivables. The length of the credit period granted by the Group will depend on the customers' scale of operation, reputation and credibility. The Group performs on-going credit evaluation on the financial condition on trade debtors and tightly monitors the overdue debts. The Group would take necessary follow up action in case of long outstanding or when the above credit evaluation results draw the attention of the management. In addition, the management reviews the recoverable amount of the trade receivables individually and collectively at each reporting date to ensure that adequate impairment losses are made for irrecoverable amounts. The credit policies have been followed by the Group during the Track Record Period and are considered to be effective in limiting our exposure to credit risk.

At the end of each reporting period, 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.

The Group had certain concentration of credit risk as 32% and 49% of the total trade receivables of the Group were due from the largest customer and 71% and 80% of the total trade receivables of the Group were due from five largest customers as at 31 December 2016 and 31 December 2017, respectively. Management considered the credit risk is limited since the Group trades only with customers with an appropriate credit history and good reputation. The management monitored the financial background and creditability of those debtors on an ongoing basis. In addition, the credit risks on liquid funds including bank deposit and bank balances is limited because the counterparties are banks with good reputation.

In relation to the Group's deposits with bank, the Group limits its exposure to credit risk by placing deposits with financial institutions with high credit rating and no recent history of default. The directors consider that the Group's credit risk on the bank deposits is low. Management continues to monitor the position and will take appropriate action if their ratings should change. During the Track Record Period, the Group has no significant concentration of credit risk in relation to deposits with bank.

Liquidity risk

For the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank loans and bank overdrafts and ensures compliance with loan covenants.

The following table details the Group's remaining contractual maturity for their non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group has required to pay. Specifically, bank borrowings with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates.

The table includes both interest and principal cash flows. To the extent that interest cash flows are at floating rate, the undiscounted amount is derived from current interest rates at the end of each reporting period.

	Weighted average effective interest rate %	On demand or within 1 year HK\$'000	More than 1 year but less than 2 year HK\$'000	More than 2 years but less than 5 years HK\$'000	Over 5 years HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amount HK\$'000
As at 31 December 2016							
Trade payables	-	38,893	-	-	-	38,893	38,893
Bills payables	3.5	21,902	-	-	-	21,902	21,296
Other payables and accrued expenses	-	7,146	-	-	-	7,146	7,146
Amount due to a related party	-	1,328	-	-	-	1,328	1,328
Bank overdrafts	7.6	9,674	-	-	-	9,674	9,513
Borrowings	3.0	71,320	-	-	-	71,320	69,558
Obligation under finance leases	4.4	209	17	-	-	226	220
		<u>150,472</u>	<u>17</u>	<u>-</u>	<u>-</u>	<u>150,489</u>	<u>147,954</u>

	Weighted average effective interest rate %	On demand or within 1 year HK\$'000	More than 1 year but less than 2 year HK\$'000	More than 2 years but less than 5 years HK\$'000	Over 5 years HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amount HK\$'000
As at 31 December 2017							
Trade payables	-	33,722	-	-	-	33,722	33,722
Bills payables	3.0	18,633	-	-	-	18,633	18,493
Other payables, and accrued expenses	-	5,414	-	-	-	5,414	5,414
Amount due to a director	-	26	-	-	-	26	26
Bank overdrafts	6.0	1,018	-	-	-	1,018	1,013
Borrowings	3.8	65,791	21,234	-	-	87,025	86,091
Obligation under finance leases	4.4	171	154	372	-	697	630
		<u>124,775</u>	<u>21,388</u>	<u>372</u>	<u>-</u>	<u>146,535</u>	<u>145,389</u>

The following table summarises the maturity analysis of bank borrowings with repayable on demand clause based on agreed scheduled repayments set out in the loan agreements. The amount includes interest payments computed using contractual rates. Taking into account the Group's financial position, the directors of the Company do not consider that it is probable that the bank will exercise its discretion to immediate repayment. The directors of the Company believe that such bank borrowings will be repaid in accordance with the scheduled dates set out in the loan agreements.

	Maturity Analysis – bank borrowing			
	Subject to a repayment			
	on demand clause based on scheduled repayments			
	Within One year HK\$'000	More than One year but less than two years HK\$'000	More than two years but less than five years HK\$'000	More More than five years HK\$'000
At 31 December 2017	59,031	24,977	2,642	454
At 31 December 2016	70,419	3,201	5,292	159

Borrowings with repayment on demand clauses are included in the “on demand or within 1 year” time band in the above maturity analysis. As at 31 December 2016 and 31 December 2017, the aggregate carrying amounts of these borrowings amounted to HK\$69,558,000 and HK\$64,091,000, respectively. Taken into account the Group’s financial position, the directors of the Company do not believe that it is probable that the lenders will exercise their discretionary rights to demand immediate repayment. The directors of the Company believe that such bank borrowings will be repaid in accordance with the scheduled repayment dates set out in the loan agreements, details of which are set out in the table below:

	Weighted average effective interest rate %	On demand or within 1 year HK\$'000	More than 1 year but less than 2 year HK\$'000	More than 2 years but less than 5 years HK\$'000	Over 5 years HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amount HK\$'000
As at 31 December 2016							
- Variable-rate	3.0	71,083	-	-	-	71,083	69,323
- Fixed-rate	4.7	237	-	-	-	237	235
		<u>71,320</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>71,320</u>	<u>69,558</u>
As at 31 December 2017							
- Variable-rate	3.8	65,791	21,234	-	-	87,025	86,091

The amount included above for variable interest 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 each reporting period.

Fair value measurements

The fair values of financial assets and financial liabilities are determined as follows:

- the fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices; and
- the fair values of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The carrying amount of other financial assets and liabilities carried at amortised cost, approximate their respective fair values due to the relatively short-term nature of these financial instruments.

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 input to the fair value measurements in its entirety.

The table below gives the information about how the fair value of these financial assets and financial liabilities that are measured at fair value on a recurring basis are determined (in particular, the valuation technique(s) and input used).

The different level are defined as follows:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the assets or liability that are not based on observable market data (unobservable inputs).

Financial assets	Fair value	Fair value	Fair value hierarchy	Valuation technique and key input(s)	Significant unobservable	Sensitivity
	31 December 2016	31 December 2017			inputs	
	HK\$'000	HK\$'000				
Club memberships	440	440	Level 2	Market approach-reference to quoted price in active market	31 December 2016 None 31 December 2017 None	N/A
Key management personnel life insurance policies	16,324	16,673	Level 3	Probability-weighted discounted cash flow method	31 December 2016 Crediting rate: 3.6% Discounting rate: 4.5%	An increase in the discount rate would result in a decrease in fair value, and vice versa.
				Key inputs include the account value, policy charge, crediting rate of insurance policy and discount rate	31 December 2017 Crediting rate: 3.7% Discounting rate: 4.0%	If the above unobservable inputs to the valuation model were 10% higher/lower while all the other variables were held constant, the carrying amount of the other financial assets would decrease by approximately HK\$1,023,000 or increase by approximately HK\$1,318,000 (2016: decrease by approximately HK\$1,116,000 or increase by approximately HK\$1,310,000).

There were no transfer between Level 1 and Level 2 during the Track Record Period.

Some of the Group's financial assets are measured at fair value at the end of each reporting period. The above table gives information about how the fair value of these financial assets are determined (in particular, the valuation technique(s) and inputs used).

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the Group's consolidated statements of financial position approximate of their fair values.

41. PARTICULARS OF SUBSIDIARIES

At the date of this report, the Company has direct and indirect equity interests in the following subsidiaries:

Name of subsidiaries	Place and date of incorporation	Issued and fully paid share capital/registered capital at the date of this report	Attributable equity interest held by the Company		At the date of this report	Principal activities	Notes
			As at 31 December 2016	2017			
			%	%	%		
Directly held:							
Beyond Blossom	BVI, 9 May 2017	Ordinary shares US\$1	-	100	100	Investment holding	(a)
Indirectly held:							
Precise Time	BVI, 10 May 2017	Ordinary shares US\$1	-	100	100	Investment holding	(a)
Big Hope	BVI, 9 May 2017	Ordinary shares US\$1	-	100	100	Investment holding	(a)
Diamond Fountain	BVI, 9 May 2017	Ordinary shares US\$1	-	100	100	Investment holding	(a)
Vast Peak	BVI, 21 September 2011	Ordinary shares US\$1	-	100	100	Investment holding	(a)
Talent Gift	BVI, 3 January 2017	Ordinary shares US\$1	-	100	100	Investment holding	(a)
3 Wells	Hong Kong, 2 September 1986	Ordinary capital HK\$1,000,000	-	100	100	Trading and distribution of watches	(b)
Cheer China	Hong Kong, 3 August 2011	Ordinary capital HK\$1	-	100	100	Investment holding	(b)
Cheer Wells	Hong Kong, 2 February 2015	Ordinary capital HK\$10,000	-	100	100	Investment holding	(b)
Creative Profit	Hong Kong, 22 May 2008	Ordinary capital HK\$10,000	-	100	100	Investment holding	(b)
Shenzhen 3 Wells	PRC, 8 August 2005	Registered capital HK\$10,000,000	-	100	100	Manufacturing of watches	(b)

All subsidiaries now comprising the Group have adopted 31 December as their financial year end date.

Notes:

- (a) No audited financial statements have been prepared since its date of incorporation as it is incorporated in a jurisdiction where there is no statutory audit requirement.
- (b) The audited statutory financial statements of the Company's subsidiaries incorporated/established in Hong Kong and in the PRC were prepared in accordance with the relevant accounting principles and financial regulations applicable to enterprises incorporated/established in Hong Kong and in the PRC were audited by:

Name of subsidiaries	Financial year	Name of auditor
3 Wells	Year ended 31 December 2016 and 2017	HLB Hodgson Impey Cheng Limited
Cheer China	Year ended 31 December 2016 and 2017	HLB Hodgson Impey Cheng Limited
Cheer Wells	Years ended 31 December 2016 and 2017	HLB Hodgson Impey Cheng Limited
Creative Profit	Year ended 31 December 2016 and 2017	HLB Hodgson Impey Cheng Limited
Shenzhen 3 Wells	Years ended 31 December 2016 and 2017	深圳市義達會計師事務所有限責任公司

III. SUBSEQUENT EVENTS

Subsequent to the end of the reporting period, the Group had no significant events occurred.

IV. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Group or any of its subsidiaries in respect of any period subsequent to 31 December 2017.

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

The information sets forth in this Appendix does not form part of the Accountants' Report prepared by HLB Hodgson Impey Cheng Limited, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, as set forth in Appendix I to this prospectus, and is included herein for illustrative purpose only.

The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" and the accountants' report set forth in Appendix I to this prospectus.

A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following unaudited pro forma adjusted consolidated net tangible assets of the Group is prepared by the directors of the Company in accordance with Rule 7.31 of the Rules Governing the Listing of Securities on the GEM (the "GEM Listing Rules") of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") is for illustration purposes only, and is set forth here to illustrate the effect of the share offer ("Share Offer") on the consolidated net tangible assets of the Group as at 31 December 2017 as if the Share Offer had taken place on 31 December 2017.

The unaudited pro forma adjusted consolidated net tangible assets of the Group has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial position of the Group as at 31 December 2017 or at any future date following the Share Offer.

The following unaudited pro forma adjusted consolidated net tangible assets of the Group is prepared based on the audited consolidated net tangible assets of the Group attributable to owners of the Company as at 31 December 2017 as shown in the accountants' report set out in Appendix I to this prospectus, and adjusted as described below.

	Audited consolidated net tangible assets of the Group attributable to owners of the Company as at 31 December 2017 <i>HK\$'000</i> <i>(Note 1)</i>	Estimated net proceeds from the Share Offer <i>HK\$'000</i> <i>(Note 2)</i>	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company as at 31 December 2017 <i>HK\$'000</i> <i>(Note 3)</i>	Unaudited pro forma adjusted consolidated net tangible assets of the Group per Share <i>HK\$</i> <i>(Note 4)</i>
Based on the Share Offer of HK\$0.23 per Share	31,900	37,081	68,981	0.07
Based on the Share Offer of HK\$0.27 per Share	31,900	46,326	78,226	0.08

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

Notes:

1. The consolidated net tangible assets of the Group attributable to owners of the Company as at 31 December 2017 is extracted from the accountants' report as set out in Appendix I to this prospectus.
2. The estimated net proceeds from the Share Offer are based on the Offer Price of HK\$0.23 and HK\$0.27 per Share, after deduction of underwriting fees and related expenses by the Company (excluding listing expenses of approximately HK\$4.8 million incurred up to 31 December 2017) and takes no account of any Shares which may be issued upon the exercise of the Over-allotment Option or any Shares which may be issued upon exercise of any options that may be granted under the Share Option Scheme.
3. The unaudited pro forma adjustment consolidated net tangible assets per Share is arrived at after the adjustments referred to above and on the basis that 1,000,000,000 Shares are in issue immediately after the Capitalisation Issue and the issue under Share Offer and takes no account of any Shares which may be issued upon the exercise of the Over-allotment Option or any Shares which may be issued upon exercise of any options that may be granted under the Share Option Scheme.
4. No adjustments have been made to the unaudited pro forma consolidated net tangible assets of the Group as at 31 December 2017 to reflect any trading results or other transactions of the Group entered into subsequent to 31 December 2017.

B. LETTER FROM THE REPORTING ACCOUNTANTS ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report received from the independent reporting accountants, HLB Hodgson Impey Cheng Limited, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus, in connection with the unaudited pro forma financial information.



國 衛 會 計 師 事 務 所 有 限 公 司
Hodgson Impey Cheng Limited

31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

28 June 2018

**INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE
COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION
INCLUDED IN A PROSPECTUS**

TO DIRECTORS OF HANVEY GROUP HOLDINGS LIMITED

We have completed our assurance engagement to report on the compilation of the unaudited pro forma financial information of HANVEY GROUP HOLDINGS LIMITED (the “**Company**”) and its subsidiaries (collectively the “**Group**”) by the directors for illustrative purposes only. The unaudited pro forma financial information consists of the pro forma adjusted consolidated net tangible assets as at 31 December 2017, and related notes as set out on pages II-1 to II-2 of the prospectus (the “**Prospectus**”) dated 28 June 2018 issued by the Company. The applicable criteria on the basis of which the directors have compiled the unaudited pro forma financial information are described in Appendix II of the Prospectus.

The unaudited pro forma financial information has been compiled by the directors to illustrate the impact of the proposed share offer (the “**Share Offer**”) on the Group’s consolidated net tangible assets as at 31 December 2017. As part of this process, information about the Group’s consolidated net tangible assets has been extracted by the directors from the Group’s consolidated financial statements for the year ended 31 December 2017, on which an accountants’ report has been published.

Directors’ Responsibility for the Unaudited Pro Forma Financial Information

The directors are responsible for compiling the unaudited pro forma financial information in accordance with paragraph 7.31 of the Rules Governing the Listing of Securities on the GEM of The Stock Exchange of Hong Kong Limited (the “**GEM Listing Rules**”) and with reference to Accounting Guideline 7, “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” (“**AG 7**”) issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”).

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the “Code of Ethics for Professional Accountants” issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

The firm applies Hong Kong Standard on Quality Control 1 “Quality Control for Firms that Perform Audits and Reviews of Financial Statement and Other Assurance and Related Services Engagement” issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants’ Responsibilities

Our responsibility is to express an opinion, as required by paragraph 7.31(7) of the GEM Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420, “Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus” issued by the HKICPA. This standard requires that the reporting accountants comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether the directors have compiled the unaudited pro forma financial information in accordance with paragraph 7.31 of the GEM Listing Rules and with reference to AG 7 issued by the HKICPA.

For the purpose of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the unaudited pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the unaudited pro forma financial information.

The purpose of unaudited pro forma financial information included in the Prospectus is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 31 December 2017 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors in the

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgement, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

- (a) the unaudited pro forma financial information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 7.31(1) of the GEM Listing Rules.

Yours faithfully,
HLB Hodgson Impey Cheng Limited
Certified Public Accountants

Shek Lui
Practicing Certificate Number: P05895
Hong Kong, 28 June 2018

The following is the text of a letter, summary of valuation and valuation certificates, prepared for the purpose of incorporation in this circular received from Asset Appraisal Limited, an independent property valuer, in connection with the valuation as at 30 April 2018 of the Property.



Asset Appraisal Limited
中誠達資產評值顧問有限公司

Rm 901 9/F On Hong Commercial Building
No.145 Hennessy Road Wanchai HK
香港灣仔軒尼詩道145號安康商業大廈9樓901室
Tel: (852) 2529 9448 Fax: (852) 3544 5854

28 June 2018

The Board of Directors
HANVEY GROUP HOLDINGS LIMITED

Units 1503–6, 15th Floor
Tower 1, Ever Gain Plaza
No. 88 Container Port Road
Kwai Chung, New Territories
Hong Kong

Dear Sirs,

**Portions of Unit 3 and Unit 6 on 15th Floor,
Tower One, Ever Gain Plaza,
No. 88 Container Port Road,
Kwai Chung, New Territories,
Hong Kong.**

In accordance with the instructions of HANVEY GROUP HOLDINGS LIMITED (the “**Company**”) to value the captioned property interests (the “**Property**”) situated in Hong Kong, we confirm that we have carried out inspection of the Property, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of the Property as at 30 April 2018 (the “**date of valuation**”).

BASIS OF VALUATION

Our valuation of the Property represents the market value which we would define as intended to mean “the estimated amount for which an asset or liability should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion”.

TITLESHIP

We have been provided with copies of legal documents regarding the Property. In addition, we have caused searches to be made at the appropriated Land Registry for the Property in Hong Kong. However, we have not verified ownership of the Property and the existence of any encumbrances that would affect their ownership.

VALUATION METHODOLOGY

We have valued the Property by the comparison method where comparison based on prices realised or market prices of comparable property is made. Comparable properties of similar size, character and location are analysed and carefully weighed against all the respective advantages and disadvantages of each property in order to arrive at a fair comparison of capital values.

ASSUMPTIONS

Our valuations have been made on the assumption that the owner sells its interests in the Property on the market without the benefit of deferred terms contracts, leaseback, joint ventures, management agreements or any similar arrangement which would serve to affect the values of the Property.

Other special assumptions for our valuation (if any) would be stated out in the footnotes of the valuation certificates attached herewith.

LIMITING CONDITIONS

No allowance has been made in our report for any charges, mortgages or amounts owing on the Property valued nor for any expenses or taxation. Unless otherwise stated, it is assumed that the Property is free from encumbrances, restrictions and outgoings of an onerous nature, which could affect their values.

We have relied to a very considerable extent on the information given by the Company and have accepted advice given to us on such matters as tenure, planning approvals, statutory notices, easements, particulars of occupancy, lettings, and all other relevant matters.

We have not carried out detailed site measurements to verify the correctness of the floor areas in respect of the Property but have assumed that the floor areas shown on the legal documents handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations.

The Property was last inspected on 30 June 2017 by Mr. Or Kin Kwan Stanley who is a holder of a Higher Certificate in Valuation and Property Management from the Hong Kong Polytechnic University and has over 10 years of experience in valuation of properties in Hong Kong and in the PRC. However, no structural survey has been made for them. In the course of our inspection, we did not note any apparent defects. We are not, however, able to report whether the buildings and structures inspected by us are free of rot, infestation or any structural defect. No test was carried out on any of the building services and equipment.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Company. We have also sought confirmation from the Company that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view, and we have no reason to suspect that any material information has been withheld.

In valuing the Property, we have complied with all the requirements contained in Chapter 8 of the Rules Governing the Listing of Securities on the GEM issued by The Stock Exchange of Hong Kong Limited and the HKIS Valuation Standards (2017 Edition) published by The Hong Kong Institute of Surveyors.

We have valued the Property in Hong Kong dollars (HK\$).

Our summary of valuation and valuation certificates are attached herewith.

Yours faithfully,
For and on behalf of
Asset Appraisal Limited

Tse Wai Leung

MFin BSc MRICS MHKIS RPS(GP)

Director

Tse Wai Leung is a member of the Royal Institution of Chartered Surveyors, a member of The Hong Kong Institute of Surveyors, a Registered Professional Surveyor in General Practice and a qualified real estate appraiser in the PRC. He is on the list of Property Valuers for Undertaking Valuations for Incorporation or Reference in Listing Particulars and Circulars and Valuations in Connection with Takeovers and Mergers of the Hong Kong Institute of Surveyors, Registered Business Valuer under the Hong Kong Business Valuation Forum and has over 10 years' experience in valuation of properties in Hong Kong, in Macau and in the PRC.

SUMMARY OF VALUATION

No. Property	Market value in existing state as at 30 April 2018
1. Portion of Unit 3 on 15th Floor, Tower One, Ever Gain Plaza, No. 88 Container Port Road, Kwai Chung, New Territories, Hong Kong.	HK\$ 8,000,000
2. Portion of Unit 6 on 15th Floor, Tower One, Ever Gain Plaza, No. 88 Container Port Road, Kwai Chung, New Territories	HK\$ 7,000,000
Total:	<u>HK\$15,000,000</u>

VALUATION CERTIFICATE

Property held for investment

No.	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 30 April 2018
1.	Portion of Unit 3 on 15th Floor, Tower One, Ever Gain Plaza, No. 88 Container Port Road, Kwai Chung, New Territories Hong Kong	The property comprises portion of an industrial/office unit on 15th Floor of a 20-storey industrial/office building erected over an 8-storey car port podium of the reinforced concrete construction. The property was completed in 1998.	As at the valuation date, the property was leased for a term of two years commencing on 1 October 2017 and expiring on 30 September 2019 at a monthly rent of HK\$15,000 inclusive of rates, Government rent and management fees.	HK\$8,000,000
	The Remaining Portion of Kwai Chung Town Lot No. 315	The saleable area of the property is 902 square feet or thereabout. The property is held under New Grant No. TW5469 for a term of 99 years commencing on 1 July 1898 and the term has been statutorily extended until 30 June 2047. The annual government rent is equivalent to 3% of the rateable value for the time being of the property.		

Notes:

- The registered owner of the property is Cheer China Group Holdings Limited (致華集團控股有限公司) which is a fellow subsidiary of the Company vide memorial no. 12071702600175 dated 27 June 2012.
- Deed of Mutual Covenant and Management Agreement of the subject development was registered via memorial no. TW1248360 dated 19 October 1998.
- Deed Poll With Plan of the subject development was registered via memorial no. 05080300650025 dated 28 July 2005.
- Sub-Deed of Mutual Covenant of the subject development was registered via memorial no. 05082201630024 dated 28 July 2005.
- Occupation Permit No.NT89/98 of the subject development was registered via memorial no. TW1243533 dated 25 September 1998.
- The property is subject to Mortgage in favour of Bank of China (Hong Kong) Limited for all monies vide memorial no. 12071702600183 dated 27 June 2012.
- The property falls within an area zoned "Industrial" under Kwai Chung Outline Zoning Plan No. S/KC/28 dated 25 September 2015.

No.	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 30 April 2018
2.	Portion of Unit 6 on 15th Floor, Tower One, Ever Gain Plaza, No. 88 Container Port Road, Kwai Chung, New Territories Hong Kong The Remaining Portion of Kwai Chung Town Lot No. 315	The property comprises portion of an industrial/office unit on 15th Floor of a 20-storey industrial/office building erected over an 8-storey car port podium of the reinforced concrete construction. The property was completed in 1998. The saleable area of the property is 793 square feet or thereabout. The property is held under New Grant No. TW5469 for a term of 99 years commencing on 1 July 1898 and the term has been statutorily extended until 30 June 2047. The annual government rent is equivalent to 3% of the rateable value for the time being of the property.	As at the valuation date, the property was subject to a tenancy for a term of two years commencing on 1 July 2017 and expiring on 30 June 2019 at a monthly rent of HK\$15,000 inclusive of rates, Government rent and management fees.	HK\$7,000,000

Notes:

- The registered owner of the property is Cheer China Group Holdings Limited (致華集團控股有限公司) which is a fellow subsidiary of the Company via memorial no. 12071702600175 dated 27 June 2012.
- Deed of Mutual Covenant and Management Agreement of the subject development was registered via memorial no. TW1248360 dated 19 October 1998.
- Deed Poll With Plan of the subject development was registered via memorial no. 05080300650025 dated 28 July 2005.
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- Occupation Permit No. NT89/98 of the subject development was registered via memorial no. TW1243533 dated 25 September 1998.
- The property is subject to Mortgage in favour of Bank of China (Hong Kong) Limited for all monies vide memorial no. 12071702600183 dated 27 June 2012.
- The property falls within an area zoned "Industrial" under Kwai Chung Outline Zoning Plan No. S/KC/28 dated 25 September 2015.

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 12 June, 2017 under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the “**Companies Law**”). The Company’s constitutional documents consist of its Memorandum of Association (the “**Memorandum**”) and its Articles of Association (the “**Articles**”).

1. MEMORANDUM OF ASSOCIATION

- (a) The Memorandum states, inter alia, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the shares respectively held by them and that the objects for which the Company is established are unrestricted (including acting as an investment company), and that the Company shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Companies Law and in view of the fact that the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.
- (b) The Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

2. ARTICLES OF ASSOCIATION

The Articles were conditionally adopted on 20 June 2018 with effect from the Listing Date. The following is a summary of certain provisions of the Articles:

(a) Shares

(i) *Classes of shares*

The share capital of the Company consists of ordinary shares.

(ii) *Variation of rights of existing shares or classes of shares*

Subject to the Companies Law, if at any time the share capital of the Company is divided into different classes of shares, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting

of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will *mutatis mutandis* apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy (whatever the number of shares held by them) shall be a quorum. Every holder of shares of the class shall be entitled to one vote for every such share held by him.

Any special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

(iii) Alteration of capital

The Company may by ordinary resolution of its members:

- (i) increase its share capital by the creation of new shares;
- (ii) consolidate all or any of its capital into shares of larger amount than its existing shares;
- (iii) divide its shares into several classes and attach to such shares any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as the Company in general meeting or as the directors may determine;
- (iv) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum; or
- (v) cancel any shares which, at the date of passing of the resolution, have not been taken and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

(iv) Transfer of shares

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its

nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time.

The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee. The transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect of that share.

The board may, in its absolute discretion, at any time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

The board may decline to recognise any instrument of transfer unless a fee (not exceeding the maximum sum as the Stock Exchange may determine to be payable) determined by the Directors is paid to the Company, the instrument of transfer is properly stamped (if applicable), it is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in any newspaper or by any other means in accordance with the requirements of the Stock Exchange, at such times and for such periods as the board may determine. The register of members must not be closed for periods exceeding in the whole thirty (30) days in any year.

Subject to the above, fully paid shares are free from any restriction on transfer and free of all liens in favour of the Company.

(v) Power of the Company to purchase its own shares

The Company is empowered by the Companies Law and the Articles to purchase its own shares subject to certain restrictions and the board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by the Stock Exchange.

Where the Company purchases for redemption a redeemable share, purchases not made through the market or by tender must be limited to a maximum price determined by the Company in general meeting. If purchases are by tender, tenders must be made available to all members alike.

(vi) Power of any subsidiary of the Company to own shares in the Company

There are no provisions in the Articles relating to ownership of shares in the Company by a subsidiary.

(vii) Calls on shares and forfeiture of shares

The board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by installments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty per cent. (20%) per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or installments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty per cent. (20%) per annum as the board determines.

(b) Directors**(i) *Appointment, retirement and removal***

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The Directors to retire by rotation shall include any Director who wishes to retire and not offer himself for re-election. Any further Directors so to retire shall be those who have been longest in office since their last re election or appointment but as between persons who became or were last re elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot.

Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification. Further, there are no provisions in the Articles relating to retirement of Directors upon reaching any age limit.

The Directors have the power to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director appointed to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting and any Director appointed as an addition to the existing board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

A Director may be removed by an ordinary resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and members of the Company may by ordinary resolution appoint another in his place. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office of director shall be vacated if:

- (aa) he resigns by notice in writing delivered to the Company;
- (bb) he becomes of unsound mind or dies;
- (cc) without special leave, he is absent from meetings of the board for six (6) consecutive months, and the board resolves that his office is vacated;

- (dd) he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;
- (ee) he is prohibited from being a director by law; or
- (ff) he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

The board may appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the board may determine and the board may revoke or terminate any of such appointments. The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed must, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

(ii) Power to allot and issue shares and warrants

Subject to the provisions of the Companies Law and the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued (a) with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Directors may determine, or (b) on terms that, at the option of the Company or the holder thereof, it is liable to be redeemed.

The board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may determine.

Subject to the provisions of the Companies Law and the Articles and, where applicable, the rules of the Stock Exchange and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company are at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the board is obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered

addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(iii) Power to dispose of the assets of the Company or any of its subsidiaries

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Companies Law to be exercised or done by the Company in general meeting.

(iv) Borrowing powers

The board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets and uncalled capital of the Company and, subject to the Companies Law, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party. Such borrowing powers can be varied by amending the Articles with the sanction of a special resolution of the Company.

(v) Remuneration

The ordinary remuneration of the Directors is to be determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors are also entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other

executive officer shall receive such remuneration and such other benefits and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex-Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(vi) Compensation or payments for loss of office

Pursuant to the Articles, payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

(vii) Loans and provision of security for loans to Directors

The Company must not make any loan, directly or indirectly, to a Director or his close associate(s) if and to the extent it would be prohibited by the Companies Ordinance (Chapter 622 of the laws of Hong Kong) as if the Company were a company incorporated in Hong Kong.

(viii) Disclosure of interests in contracts with the Company or any of its subsidiaries

A Director may hold any other office or place of profit with the Company (except that of the auditor of the Company) in conjunction with his office of Director for such period and upon such terms as the board may determine, and may be paid such extra remuneration therefor in addition to any remuneration provided for by or pursuant to the Articles. A Director may be or become a director or other officer of, or

otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. The board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

No Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company must declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his close associates is materially interested, but this prohibition does not apply to any of the following matters, namely:

- (aa) any contract or arrangement for giving to such Director or his close associate(s) any security or indemnity in respect of money lent by him or any of his close associates or obligations incurred or undertaken by him or any of his close associates at the request of or for the benefit of the Company or any of its subsidiaries;
- (bb) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his close associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;

- (cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his close associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (dd) any contract or arrangement in which the Director or his close associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company; or
- (ee) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his close associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his close associate(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

(c) Proceedings of the Board

The board may meet for the despatch of business, adjourn and otherwise regulate its meetings as it considers appropriate. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

(d) Alterations to constitutional documents and the Company's name

The Articles may be rescinded, altered or amended by the Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of the Company.

(e) Meetings of members

(i) Special and ordinary resolutions

A special resolution of the Company must be passed by a majority of not less than three fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given in accordance with the Articles.

Under the Companies Law, a copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given in accordance with the Articles.

(ii) Voting rights and right to demand a poll

Subject to any special rights or restrictions as to voting for the time being attached to any shares, at any general meeting on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share. A member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll save that the chairman of the meeting may in good faith, allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands in which case every member present in person (or being a corporation, is present by a duly authorized representative), or by proxy(ies) shall have one vote provided that where more than one proxy is appointed by a member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands.

If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such person or persons as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the shares of the Company held by that clearing house (or its nominee(s)) including, where a show of hands is allowed, the right to vote individually on a show of hands.

Where the Company has any knowledge that any shareholder is, under the rules of the Stock Exchange, required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

(iii) Annual general meetings

The Company must hold an annual general meeting of the Company every year within a period of not more than fifteen (15) months after the holding of the last preceding annual general meeting or a period of not more than eighteen (18) months from the date of adoption of the Articles, unless a longer period would not infringe the rules of the Stock Exchange.

(iv) Notices of meetings and business to be conducted

An annual general meeting must be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear business days. All other general meetings must be called by notice of at least fourteen (14) clear days and not less than ten (10) clear business days. The notice is exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and must specify the time and place of the meeting and particulars of resolutions to be considered at the meeting and, in the case of special business, the general nature of that business.

In addition, notice of every general meeting must be given to all members of the Company other than to such members as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, and also to, among others, the auditors for the time being of the Company.

Any notice to be given to or by any person pursuant to the Articles may be served on or delivered to any member of the Company personally, by post to such member's registered address, by advertisement in newspapers in accordance with the requirements of the Stock Exchange. Subject to compliance with Cayman Islands law and the rules of the Stock Exchange, notice may also be served or delivered by the Company to any member by electronic means.

All business that is transacted at an extraordinary general meeting and at an annual general meeting is deemed special, save that in the case of an annual general meeting, each of the following business is deemed an ordinary business:

- (aa) the declaration and sanctioning of dividends;
- (bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;

- (cc) the election of directors in place of those retiring;
- (dd) the appointment of auditors and other officers;
- (ee) the fixing of the remuneration of the directors and of the auditors;
- (ff) the granting of any mandate or authority to the directors to offer, allot, grant options over or otherwise dispose of the unissued shares of the Company representing not more than twenty per cent (20%) in nominal value of its existing issued share capital; and
- (gg) the granting of any mandate or authority to the directors to repurchase securities of the Company.

(v) *Quorum for meetings and separate class meetings*

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

The quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one third in nominal value of the issued shares of that class.

(vi) *Proxies*

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and is entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy is entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. Votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

(f) Accounts and audit

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the Companies Law or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records must be kept at the registered office or at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of the Company except as conferred by law or authorised by the board or the Company in general meeting. However, an exempted company must make available at its registered office in electronic form or any other medium, copies of its books of account or parts thereof as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law of the Cayman Islands.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of the Company under the provisions of the Articles; however, subject to compliance with all applicable laws, including the rules of the Stock Exchange, the Company may send to such persons summarised financial statements derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to summarised financial statements, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

At the annual general meeting or at a subsequent extraordinary general meeting in each year, the members shall appoint an auditor to audit the accounts of the Company and such auditor shall hold office until the next annual general meeting. The remuneration of the auditors shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards which may be those of a country or jurisdiction other than the Cayman Islands. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor must be submitted to the members in general meeting.

(g) Dividends and other methods of distribution

The Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board.

The Articles provide dividends may be declared and paid out of the profits of the Company, realised or unrealised, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit.

The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders,

to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

(h) Inspection of corporate records

Pursuant to the Articles, the register and branch register of members shall be open to inspection for at least two (2) hours during business hours by members without charge, or by any other person upon a maximum payment of HK\$2.50 or such lesser sum specified by the board, at the registered office or such other place at which the register is kept in accordance with the Companies Law or, upon a maximum payment of HK\$1.00 or such lesser sum specified by the board, at the office where the branch register of members is kept, unless the register is closed in accordance with the Articles.

(i) Rights of minorities in relation to fraud or oppression

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Cayman Islands law, as summarised in paragraph 3(f) of this Appendix.

(j) Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares:

- (i) if the Company is wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively; and
- (ii) if the Company is wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If the Company is wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Law divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(k) Subscription rights reserve

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

3. CAYMAN ISLANDS COMPANY LAW

The Company is incorporated in the Cayman Islands subject to the Companies Law and, therefore, operates subject to Cayman Islands law. Set out below is a summary of certain provisions of Cayman company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(a) Company operations

As an exempted company, the Company's operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

(b) Share capital

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on those shares shall be transferred to an account, to be called the "share premium account". At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium.

The Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law); (d) writing-off the preliminary expenses of the company; and (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course of business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands (the "**Court**"), a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

(c) Financial assistance to purchase shares of a company or its holding company

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's length basis.

(d) Purchase of shares and warrants by a company and its subsidiaries

A company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder and the Companies Law expressly provides that it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company's articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise the manner and terms of purchase, a company cannot purchase any of its own shares unless the manner and terms of purchase have first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the company other than shares held as treasury shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

Shares purchased by a company is to be treated as cancelled unless, subject to the memorandum and articles of association of the company, the directors of the company resolve to hold such shares in the name of the company as treasury shares prior to the purchase. Where shares of a company are held as treasury shares, the company shall be entered in the register of members as holding those shares, however, notwithstanding the foregoing, the company is not be treated as a member for any purpose and must not exercise any right in respect of the treasury shares, and any purported exercise of such a right shall be void, and a treasury share must not be voted, directly or indirectly, at any meeting of the company and must not be counted in determining the total number of issued shares at any given time, whether for the purposes of the company's articles of association or the Companies Law.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) Dividends and distributions

The Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account. With the exception of the foregoing, there are no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits.

No dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made to the company, in respect of a treasury share.

(f) Protection of minorities and shareholders' suits

The Courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the Court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Court shall direct.

Any shareholder of a company may petition the Court which may make a winding up order if the Court is of the opinion that it is just and equitable that the company should be wound up or, as an alternative to a winding up order, (a) an order regulating the conduct of the company's affairs in the future, (b) an order requiring the company to refrain from doing or continuing an act complained of by the shareholder petitioner or to do an act which the shareholder petitioner has complained it has omitted to do, (c) an order authorising civil proceedings to be brought in the name and on behalf of the company by

the shareholder petitioner on such terms as the Court may direct, or (d) an order providing for the purchase of the shares of any shareholders of the company by other shareholders or by the company itself and, in the case of a purchase by the company itself, a reduction of the company's capital accordingly.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

(g) Disposal of assets

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(h) Accounting and auditing requirements

A company must cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; and (iii) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

An exempted company must make available at its registered office in electronic form or any other medium, copies of its books of account or parts thereof as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law of the Cayman Islands.

(i) Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

(j) Taxation

Pursuant to the Tax Concessions Law of the Cayman Islands, the Company has obtained an undertaking:

- (1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Company or its operations; and
- (2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of the Company.

The undertaking for the Company is for a period of twenty years from 29 June 2017.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save for certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are a party to a double tax treaty entered into with the United Kingdom in 2010 but otherwise is not party to any double tax treaties.

(k) Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

(l) Loans to directors

There is no express provision in the Companies Law prohibiting the making of loans by a company to any of its directors.

(m) Inspection of corporate records

Members of the Company have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the Company. They will, however, have such rights as may be set out in the Company's Articles.

(n) Register of members

An exempted company may maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. A branch register must be kept in the same manner in which a principal register is by the Companies Law required or permitted to be kept. The company shall cause to be kept at the place where the company's principal register is kept a duplicate of any branch register duly entered up from time to time.

There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection. However, an exempted company shall make available at its registered office, in electronic form or any other medium, such register of members, including any branch register of members, as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law of the Cayman Islands.

(o) Register of Directors and Officers

The Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within sixty (60) days of any change in such directors or officers.

(p) Register of Beneficial Ownership

An exempted company is required to maintain a beneficial ownership register at its registered office that records details of the persons who ultimately own or control, directly or indirectly, more than 25% of the equity interests or voting rights of the company or have rights to appoint or remove a majority of the directors of the company. The register of beneficial ownership is not a public document and is only accessible by a designated competent authority of the Cayman Islands. Such requirement does not, however, apply to an exempted company with its shares listed on an approved stock exchange, which includes the Stock Exchange. Accordingly, for so long as the Company is listed on the Stock Exchange, it is not required to maintain a register of beneficial ownership.

(q) Winding up

A company may be wound up (a) compulsorily by order of the Court, (b) voluntarily, or (c) under the supervision of the Court.

The Court has authority to order winding up in a number of specified circumstances including where the members of the company have passed a special resolution requiring the

company to be wound up by the Court, or where the company is unable to pay its debts, or where it is, in the opinion of the Court, just and equitable to do so. Where a petition is presented by members of the company as contributories on the ground that it is just and equitable that the company should be wound up, the Court has the jurisdiction to make certain other orders as an alternative to a winding-up order, such as making an order regulating the conduct of the company's affairs in the future, making an order authorising civil proceedings to be brought in the name and on behalf of the company by the petitioner on such terms as the Court may direct, or making an order providing for the purchase of the shares of any of the members of the company by other members or by the company itself.

A company (save with respect to a limited duration company) may be wound up voluntarily when the company so resolves by special resolution or when the company in general meeting resolves by ordinary resolution that it be wound up voluntarily because it is unable to pay its debts as they fall due. In the case of a voluntary winding up, such company is obliged to cease to carry on its business (except so far as it may be beneficial for its winding up) from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

For the purpose of conducting the proceedings in winding up a company and assisting the Court therein, there may be appointed an official liquidator or official liquidators; and the court may appoint to such office such person, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court must declare whether any act required or authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court.

As soon as the affairs of the company are fully wound up, the liquidator must make a report and an account of the winding up, showing how the winding up has been conducted and how the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. This final general meeting must be called by at least 21 days' notice to each contributory in any manner authorised by the company's articles of association and published in the Gazette.

(r) Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five per cent. (75%) in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Court. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for

which approval is sought would not provide the shareholders with a fair value for their shares, the Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

(s) Take-overs

Where an offer is made by a company for the shares of another company and, within four (4) months of the offer, the holders of not less than ninety per cent. (90%) of the shares which are the subject of the offer accept, the offeror may at any time within two (2) months after the expiration of the said four (4) months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court within one (1) month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

(t) Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

4. GENERAL

Conyers Dill & Pearman, the Company's special legal counsel on Cayman Islands law, have sent to the Company a letter of advice summarising certain aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the paragraph headed "Documents available for inspection" in Appendix VI to this prospectus. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

A. FURTHER INFORMATION ABOUT OUR GROUP**1. Incorporation**

Our Company was incorporated in the Cayman Islands under the Cayman Companies Law as an exempted company with limited liability on 12 June 2017. Our Company has established a principal place of business at Units 3, 5 and 6, 15th Floor, Tower One, Ever Gain Plaza, No. 88 Container Port Road, Kwai Chung, New Territories, Hong Kong and was registered as a non-Hong Kong company in Hong Kong under Part 16 of the Companies Ordinance on 15 August 2017. We have appointed Mrs. Cheuk and Mr. Xie Xing as the authorised representatives of our Company for the acceptance of service of process and notices on behalf of our Company in Hong Kong.

As our Company is incorporated in the Cayman Islands, it is subject to the Cayman Islands law and its constitution, which comprises the Memorandum and the Articles. A summary of various provisions of its constitution and the relevant aspects of the Companies Law is set out in Appendix IV to this prospectus.

2. Changes in share capital of our Company

- (a) As at the date of incorporation, our Company had an authorised share capital of HK\$380,000 divided into 38,000,000 Shares of HK\$0.01 each. On the same day, one Share was issued, allotted and credited as fully paid to our Company's initial subscriber, which was subsequently transferred to Million Easy.
- (b) On 20 June 2018, Million Easy as the sole shareholder of the Company resolved to increase the authorised share capital of our Company from HK\$380,000 to HK\$100,000,000 by the creation of an additional 9,962,000,000 Shares, each carrying the same rights as our Share(s) then in issue in all respects.
- (c) Immediately following completion of the Capitalisation Issue and the Share Offer, and taking no account of any Share which may be issued pursuant to the exercise of the options which may be granted under the Share Option Scheme, 1,000,000,000 Shares will be issued fully paid or credited as fully paid, and 9,000,000,000 Shares will remain unissued.
- (d) Other than pursuant to the general mandate to issue Shares referred to the paragraph headed "A. Further information about our Group – 3. Written resolutions of the sole Shareholder passed on 20 June 2018" in this appendix and the Share Option Scheme, our Company does not have any present intention to issue any of the authorised but unissued share capital of our Company and, without prior approval of our Shareholders in general meeting, we will not issue any Shares which would effectively alter the control of our Company.

- (e) Save as disclosed in this prospectus, there has been no alteration in our Company's share capital since its incorporation.

3. Written resolutions of the sole Shareholder passed on 20 June 2018

Pursuant to the written resolution passed by the sole Shareholder on 20 June 2018, among other things:

- (a) our Company approved and adopted the Memorandum of Association with immediate effect and conditionally approved and adopted the Articles of Association with effect from the Listing;
- (b) the authorised share capital of our Company was increased from HK\$380,000 divided into 38,000,000 Shares to HK\$100,000,000 divided into 10,000,000,000 Shares by the creation of additional 9,962,000,000 new Shares which shall, when issued and paid, rank *pari passu* in all respects with the existing issued Shares;
- (c) conditional upon the conditions stated in the paragraph headed "Structure and Conditions of the Share Offer – Conditions of the Share Offer" in this prospectus being fulfilled or waived (as the case may be):
 - (i) the Share Offer was approved and our Directors were authorised to allot and issue the Offer Shares pursuant to the Share Offer on and subject to the terms stated in this prospectus;
 - (ii) subject to the share premium account of our Company being credited as a result of the allotment and issue of the Offer Shares under the Share Offer, up to HK\$7,499,999.99 standing to the credit of the share premium account of our Company shall be capitalised and applied to pay up in full at par the allotment and issue of an additional 749,999,999 Shares to our Shareholders whose names appear on the register of members of our Company on 20 June 2018, each ranking *pari passu* in all respects with the then existing issued Shares (the "**Capitalisation Issue**") in proportion as nearly as may be to their respective shareholding in our Company without involving fractions were approved;
 - (iii) the rules of the Share Option Scheme (the principal terms of which are set out in the sub-section headed "D. Share Option Scheme" of this appendix, which are subject to such amendments as may be approved by our Directors or any committee thereof) were approved and adopted and our Directors were authorised, at their absolute discretion, to grant options to subscribe for the Shares thereunder and to allot, issue and deal with the Shares pursuant to the exercise of options granted under the Share Option Scheme

and to do such acts and things as it may consider necessary or expedient to give effect to the transactions contemplated under and to implement the Share Option Scheme;

- (iv) a general unconditional mandate (the “**Issue Mandate**”) was given to our Directors to allot, issue and deal with, whether pursuant to an option or otherwise, additional Shares, including the power to make or grant offers, agreements and options which would or might require the exercise of such power, (otherwise than pursuant to (1) a rights issue; (2) the exercise of rights of subscription, exchange or conversion under the terms of any warrants or convertible securities issued by our Company or any securities which are exchangeable into Shares; (3) the exercise of the subscription rights under options granted under the Share Option Scheme or any other similar arrangement of our Company from time to time adopted for the grant or issue to officers and/or employees and/or consultants and/or advisers of our Company and/or any of its subsidiaries and/or other persons of Shares or rights to acquire Shares; or (4) any scrip dividend or similar arrangement providing for allotment of Shares in lieu of the whole or part of a dividend on Shares in accordance with the Articles) unissued Shares and securities carrying rights to subscribe for, exchange or convert into Shares (whether the exercise of such rights may take place during or after the period which such mandate remains in effect) with an aggregate number of not exceeding the sum of 20% of the total number of Shares of our Company in issue immediately following the completion of the Capitalisation Issue and the Share Offer, but excluding any Shares which may be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme, and such mandate to remain in effect from the date of Listing 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 date of the passing of an ordinary resolution of the Shareholders in general meeting revoking or varying such mandate;
- (v) a general unconditional mandate (the “**Repurchase Mandate**”) was given to our Directors authorising them to exercise all powers for and on our behalf to repurchase Shares on GEM or other stock exchange on which Shares may be listed and recognized by the SFC and the Stock Exchange for this purpose, subject to and in accordance with all applicable laws and the requirements of the GEM Listing Rules or of any other stock exchange as amended from time to time, such number of Shares not exceeding 10% of the aggregate number of issued Shares of our Company immediately following the completion of the Share Offer (excluding any Shares which may be issued pursuant to the exercise of any options which may be granted

under the Share Option Scheme) and the Capitalisation Issue, such mandate to 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 or any other applicable laws of the Cayman Islands; or (III) the date of passing of an ordinary resolution of our Shareholders in general meeting revoking or varying such mandate; and

- (vi) the Issue Mandate was extended by the addition to the aggregate number of Shares which may be allotted or agreed to be allotted by our Directors pursuant to such general mandate of an amount representing the aggregate number of Shares repurchased by our Company pursuant to the Repurchase Mandate, provided that such extended amount shall not exceed 10% of the total number of the issued Shares of our Company immediately following completion of the Share Offer and the Capitalisation Issue.

4. Corporate Reorganisation

In preparing for the Listing, the companies comprising our Group underwent the Reorganisation to rationalise the corporate structure of our Group and our Company became the holding company of our Group. Please refer to the paragraph headed “History, Reorganisation and Group Structure – Reorganisation” in this prospectus for further details.

5. Changes in share capital of subsidiaries

The subsidiaries of our Company are listed in the Accountants’ Report of our Company, the text of which is set out in Appendix I to this prospectus.

Save as disclosed in the paragraph headed “4. Corporate Reorganisation” in this appendix and in the paragraph headed “History, Reorganisation and Group Structure – Reorganisation” in this prospectus, there has been no alteration in the share capital of any of the subsidiaries of our Company within the two years immediately preceding the date of this prospectus.

6. Repurchase of our Shares by our Company

This section contains information required by the Stock Exchange to be included in this prospectus concerning the repurchase of the Shares by our Company.

(a) *Provisions of the GEM Listing Rules*

The GEM Listing Rules permit companies whose primary listing is on GEM to repurchase their securities on GEM subject to certain restrictions, a summary of which is set out below:

(i) *Shareholders' approval*

The GEM Listing Rules provide that all proposed repurchases of shares, which must be fully paid up in the case of shares, by a company with a primary listing on GEM must be approved in advance by an ordinary resolution of the shareholders, either by way of general mandate or by specific approval of a particular transaction.

Note: Pursuant to the written resolutions passed by the sole Shareholder on 20 June 2018, a general unconditional mandate (the “**Repurchase Mandate**”) was granted to our Directors authorising them to exercise all powers of our Company to repurchase on GEM or on any other stock exchange on which the Shares may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, such number of Shares as will represent up to 10% of the aggregate number of Shares of our Company in issue immediately following completion of the Capitalisation Issue and the Share Offer but excluding any Shares which may be issued pursuant to the exercise of the options which may be granted under the Share Option Scheme and the Repurchase Mandate shall remain in effect until whichever is the earliest of the conclusion of the next annual general meeting of our Company, or the expiration of the period within which the next annual general meeting of our Company is required by the Articles or the Companies Law or any other applicable laws of the Cayman Islands to be held, or the time when the Repurchase Mandate is revoked or varied by an ordinary resolution of the Shareholders in a general meeting.

(ii) *Source of Funds*

Any repurchase by our Company must be funded out of funds legally available for the purpose in accordance with the Memorandum, the Articles, the applicable laws of the Cayman Islands and the GEM Listing Rules. Our Company may not repurchase its own Shares on 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.

Any repurchases by our Company may be made out of profits or share premium or out of the proceeds of a fresh issue of Shares made for the purpose of the repurchase and, in the case of any premium payable on the repurchase, out of profits of our Company or out of our Company's share premium account. Subject to the satisfaction of the solvency test prescribed by the Companies Law, a repurchase may also be made out of capital of our Company.

(iii) Connected parties

The GEM Listing Rules prohibit our Company from knowingly repurchasing the Shares on GEM from a “core connected person”, which includes a director, chief executive or substantial shareholder of our Company or any of its subsidiaries and a core connected person shall not knowingly sell Shares to our Company on GEM.

(b) Exercise of the Repurchase Mandate

On the basis of 1,000,000,000 Shares in issue immediately after completion of the Capitalisation Issue and the Share Offer, our Directors would be authorised under the Repurchase Mandate to repurchase up to 100,000,000 Shares during the period in which the Repurchase Mandate remains in force. Any Shares repurchased pursuant to the Repurchase Mandate must be fully paid up.

(c) Reasons for repurchases

Our Directors believe that it is in the best interests of our Company and its Shareholders for our Directors to have a general authority from the Shareholders to enable our Company to repurchase Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of our Company’s net asset value and/or earnings per Share and will only be made when our Directors believe that such repurchases will benefit our Company and our Shareholders.

(d) Funding of repurchases

In repurchasing our Shares, our Company may only apply funds legally available for such purpose in accordance with the Memorandum, the Articles, the GEM Listing Rules and the applicable laws and regulations of the Cayman Islands.

Our Directors do not propose to exercise the Repurchase Mandate to such extent as would, in the circumstances, have a material adverse effect on the working capital requirements of our Company or the gearing levels which in the opinion of our Directors are from time to time appropriate for our Company.

(e) General

None of our Directors or to the best of their knowledge, having made all reasonable enquiries, any of their close associates, has any present intention to sell any Shares to our Company if the Repurchase Mandate is exercised.

Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the

GEM Listing Rules, the Articles and the applicable laws and regulations from time to time in force in the Cayman Islands.

If, as a result of a repurchase of Shares pursuant to the Repurchase Mandate, a Shareholder's proportionate interests in the voting rights of our Company increases, such increase will be treated as an acquisition for the purpose of the Takeovers Code. In certain circumstances, a Shareholder or a group of Shareholders acting in concert (as defined in the Takeovers Code) depending on the level of increase of the Shareholders' interests, could obtain or consolidate control of our Company and may become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code as a result of any such increase.

Save as disclosed above, our Directors are not aware of any consequences which may arise under the Takeovers Code as a consequence of any repurchase of Shares if made immediately after the Listing pursuant to the Repurchase Mandate. At present, so far as is known to our Directors, no Shareholder may become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code in the event that our Directors exercise the power in full to repurchase the Shares pursuant to the Repurchase Mandate.

Our Directors will not exercise the Repurchase Mandate if the repurchase would result in the number of Shares which are in the hands of the public falling below 25% of the total number of Shares in issue (or such other percentage as may be prescribed as the minimum public shareholding under the GEM Listing Rules). No core connected person of our Company has notified our Company that he/she/it has a present intention to sell Shares to our Company, or has undertaken not to do so, if the Repurchase Mandate is exercised.

B. FURTHER INFORMATION ABOUT OUR BUSINESS

1. Summary of material contracts

We have entered into the following contracts (not being contracts entered into in the ordinary course of business) within the two years preceding the date of this prospectus, which are or may be material in relation to the business of our Group taken as a whole:

- (a) the Sale and Purchase Agreement of Cheer Wells dated 4 August 2017 entered into between, among others, Vast Peak and Diamond Fountain, pursuant to which Vast Peak transferred 10,000 ordinary shares in Cheer Wells (representing the entire issued share capital of Cheer Wells) to Diamond Fountain at consideration of HK\$1.00 per ordinary share totaling HK\$10,000;
- (b) the Sale and Purchase Agreement of Talent Gift dated 4 August 2017 entered into between, among others, Vast Peak and Beyond Blossom, pursuant to which Vast

Peak transferred one ordinary share in Talent Gift (representing the entire issued share capital of Talent Gift) to Beyond Blossom at par of US\$1.00;

- (c) the Sale and Purchase Agreement of Vast Peak dated 4 August 2017 entered into between, among others, Million Easy and Beyond Blossom, pursuant to which Million Easy transferred one ordinary share in Vast Peak (representing the entire issued share capital of Vast Peak) to Beyond Blossom, and as consideration Beyond Blossom allotted and issued one share, credited as fully paid, to our Company as directed by Million Easy;
- (d) the Sale and Purchase Agreement of 3 Wells dated 4 August 2017 entered into between, among others, Million Easy, Precise Time and Beyond Blossom, pursuant to which Million Easy transferred 1,000,000 ordinary shares in 3 Wells (representing the entire issued share capital of 3 Wells) to Precise Time, and as consideration Beyond Blossom allotted and issued one share, credited as fully paid, to our Company as directed by Million Easy;
- (e) the Sale and Purchase Agreement of Cheer China dated 4 August 2017 entered into between, among others, Million Easy, Big Hope and Beyond Blossom, pursuant to which Million Easy transferred one ordinary share in Cheer China (representing the entire issued share capital of Cheer China) to Big Hope, and as consideration Beyond Blossom allotted and issued one share, credited as fully paid, to our Company as directed by Million Easy;
- (f) the Deed of Non-competition dated 20 June 2018 given by our Controlling Shareholders in favour of our Company regarding non-competition undertaking, details of which are set out in the section headed “Relationship with our Controlling Shareholders – Non-competition undertaking and corporate governance measures to manage conflicts of interests” in this prospectus;
- (g) the Deed of Indemnity dated 20 June 2018 given by our Controlling Shareholders in favour of our Company regarding indemnities, details of which are set out in the paragraph headed “E. Other information – 1. Tax and other indemnities” in this appendix; and
- (h) the Public Offer Underwriting Agreement dated 27 June 2018 relating to the Share Offer and entered into by, among other, our Company, our executive Directors, our Controlling Shareholders, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers and the Public Offer Underwriters, particulars of which are summarised in the section headed “Underwriting” in this prospectus.

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 the business of our Group:

Trademark	Place of registration	Registrant	Class(es)	Registration no.	Duration of validity
 三井 3Wells	Hong Kong	3 Wells	14, 18, 25, 37	302306097	From 28 June 2013 to 5 July 2022
 三井	Hong Kong	3 Wells	14, 18, 25, 37	302306105	From 28 June 2013 to 5 July 2022
 3Wells	Hong Kong	3 Wells	14, 16, 18, 25, 37	302306114	From 20 March 2013 to 5 July 2022
	Hong Kong	3 Wells	14, 16, 18, 25, 37	302306123	From 20 March 2013 to 5 July 2022
GRANDBER	Hong Kong	Cheer Wells	14	304086018	From 17 August 2017 to 21 March 2027
A. 君柏錶 B. 君柏表	Hong Kong	Cheer Wells	14	304086027	From 17 August 2017 to 21 March 2027
GRANDBER	Switzerland	Cheer Wells	14	710093	From 21 July 2017 to 21 July 2027

As at the Latest Practicable Date, our Group had applied for the registration of the following trademarks which are material to the business of our Group:

Trademark	Place of application	Applicant	Class(es)	Application no.	Date of application
GRANDBER	PRC	Cheer Wells	14	23268932	23 March 2017

(b) Domain names

As at the Latest Practicable Date, our Group was the owner of the following domain names which are material to the business of our Group:

Domain Name	Registered Owner	Expiry Date
3wells.com	3 Wells	23 August 2023
Hanveygroup.com.hk	The Company	6 September 2022
Hanveygroup.com	The Company	24 August 2022
grandber.com	Cheer Wells	9 November 2018

Note: Information contained in the website does not form part of this prospectus.

Save as disclosed herein, there are no other trade or service marks, patents and other intellectual property rights which are or may be material to the business of our Group.

C. FURTHER INFORMATION ABOUT SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND EXPERTS

1. Disclosure of Interests

(a) Interests and short positions of Directors and chief executive in Shares, underlying Shares and debentures of our Company and its associated corporations

So far as our Directors are aware, immediately following the completion of the Capitalisation Issue and the Share Offer, but taking no account of any Shares which may be issued upon the exercise of any options which may be granted under the Share Option Scheme or repurchased by our Company pursuant to the mandates as referred to in the paragraph headed “A. Further information about our Group” in this appendix, the interests and short positions of our Directors or chief executive of our Company in the Shares, underlying Shares and debentures of our Company or any of the associated corporations (within the meaning of Part XV of the SFO) which, once the Shares are listed on the GEM, 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 any interests or short positions which they are taken or deemed to have under such provisions of the SFO) or will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or will be required, pursuant to the Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by our Directors, to be notified to our Company and the Stock Exchange, will be as follows:

(i) Long position in the Shares

Name of Director	Capacity/Nature	Number and class of Shares held	Percentage of shareholding
Mr. Cheuk	Interest of a controlled corporation ^(Note)	750,000,000	75%
Mrs. Cheuk	Interest of a controlled corporation ^(Note)	750,000,000	75%

Note: 750,000,000 Shares are registered in the name of Million Easy, the entire issued share capital of which is legally and beneficially owned by Mr. Cheuk and Mrs. Cheuk in equal shares. Under the SFO, both Mr. Cheuk and Mrs. Cheuk are deemed to be interested in all the Shares held by Million Easy.

(ii) Long position in the ordinary shares of associated corporations

Name of Director	Name of associated corporation	Capacity/Nature	Number of share held	Percentage of interest
Mr. Cheuk	Million Easy	Beneficial owner	one	50%
Mrs. Cheuk	Million Easy	Beneficial owner	one	50%

(b) Interests of Substantial Shareholders and other shareholders in our Shares and underlying Shares

So far as is known to our Directors or chief executive and taking no account of any Shares which may be taken up under the Share Offer, and Shares to be issued pursuant to options which may be granted under the Share Option Scheme, the following persons (not being a Director or chief executive of our Company) will, immediately following the completion of the Capitalisation Issue and the Share Offer, have interests or short positions in 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 issued voting shares of any member of our Group:

Name	Capacity/Nature	Number of Shares held	Percentage of shareholding
Million Easy	Beneficial owner ^(Note)	750,000,000	75%

Note: The entire issued share capital of Million Easy is legally and beneficially owned by Mr. Cheuk and Mrs. Cheuk in equal shares.

2. Particulars of service contracts

None of our Directors has or is proposed to have any service agreement with the Company or any of its subsidiaries other than contracts expiring or determinable by the relevant member of our Group within one year without payment of compensation (other than statutory compensation).

3. Remuneration of Directors

- (a) The aggregate remuneration and benefits in kind paid by our Group to our Directors in respect of each of the two years ended 31 December 2017 were approximately HK\$4.7 million and HK\$4.8 million, respectively.

- (b) Under the arrangements currently in force, it is estimated that an aggregate remuneration (excluding any discretionary bonus) of approximately HK\$5.3 million is payable by our Group to our Directors for the year ending 31 December 2018.
- (c) Under the arrangements currently proposed, conditional upon the Listing, the basic annual remuneration (excluding payment pursuant to any discretionary benefits or bonus or other fringe benefits) payable by our Group to each of our Directors will be as follows:

Executive Directors	<i>HK\$'000</i>
Mr. Cheuk	1,800
Mrs. Cheuk	1,200
Ms. Heide Cheuk	756
 Independent Non-executive Directors	 <i>HK\$'000</i>
Mr. Yu Sau Ning Homer M.H.	180
Mr. Zhao Zhipeng	180
Ms. Yee Wai Fong Wendy	180

- (d) Each of our executive Directors has entered into a service contract with our Company and each of our independent non-executive Directors has entered into a letter of appointment with our Company, in all cases for a term of three years commencing on the Listing Date, which may be terminated by not less than three months' notice served by either party on the other, and is subject to termination provisions therein and provisions on retirement by rotation of Directors as set out in the Memorandum and Articles.

4. Agency fees or commissions received

Save as disclosed in the paragraph headed "Underwriting – Fees, Commission and Expenses" in this prospectus, none of our Directors or the experts named in the paragraph headed "Consents of experts" in this appendix had received any commissions, discounts, brokerages or other special terms granted as set out in paragraph 13 of Appendix 1A of the GEM Listing Rules within the two years immediately preceding the date of this prospectus in connection with the issue or sale of any capital of any member of our Group.

5. Related party transactions

Details of the related party transactions are set out under Note 38 to the Accountants' Report of our Company set out in Appendix I to this prospectus.

6. Disclaimers

Save as disclosed in this prospectus:

- (a) taking no account of any Shares which may be issued upon the exercise of options which may be granted under the Share Option Scheme or repurchased by our Company pursuant to the mandates as referred to in the paragraph headed “A. Further information about our Group” in this appendix, our Directors are not aware of any person (not being a Director or chief executive of our Company) who will, immediately following the completion of the Capitalisation Issue and the Share Offer, have an interest or short position in the Shares or underlying Shares which will fall to be disclosed to our Company and the Stock Exchange pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will be, directly or indirectly, interested in 10% or more of the issued voting shares of any other member of our Group;
- (b) none of our Directors or chief executive of our Company has any interest or short position in the Shares, underlying Shares or debentures of our Company or any of its associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to our Company and the Stock Exchange under Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO) or will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or will be required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by our Directors, to be notified to our Company and the Stock Exchange, in each case once the Shares are listed on the GEM;
- (c) none of our Directors or the experts named in the paragraph headed “Qualifications of experts” in this appendix is interested in the promotion of, or in any assets which have been, within the two years immediately preceding the issue of this prospectus, acquired or disposed of by or leased to any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group;
- (d) none of our Directors or the experts named in the paragraph headed “Qualifications of experts” in this appendix is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of our Group taken as a whole;
- (e) none of our Directors 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;

- (f) so far as is known to our Directors, none of our Directors, their respective close associates or Shareholders who are interested in more than 5% of the total number of issued Shares has any interests in the five largest customers or the five largest suppliers of our Group;
- (g) none of our Directors has any existing or proposed service contracts with any member of our Group other than contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation); and
- (h) no remuneration or other benefits in kind had been paid by any member of our Group to any Director since the date of incorporation of our Company, nor are any remuneration or benefits in kind payable by any member of our Group to any Director in respect of the current financial year under any arrangement in force as at the Latest Practicable Date.

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 20 June 2018.

For the purpose of this section, unless context otherwise requires:

“Adoption Date”	means 20 June 2018, the date which the Share Option Scheme is conditionally adopted by our Company by the written resolutions of the sole Shareholder
“Board”	means the Board or a duly authorised committee thereof
“Eligible Employee”	means any employee (whether full time or part time employee, including any executive Directors) of our Company, any of its Subsidiaries and any Invested Entity
“Grantee”	means any Participant who accepts the offer of the grant 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 Grantee or the legal representative of such person

“Group”	means our Company and its Subsidiaries from time to time and “member(s) of our Group” shall be construed accordingly
“Invested Entity”	means any entity in which our Group holds any equity interest
“Option”	means an option to subscribe for Shares granted pursuant to the Share Option Scheme and for the time being subsisting
“Option Period”	means in respect of any particular Option, such period as the Board may in its absolute discretion determine, save that such period shall not be more than ten years from the date upon which the Option is deemed to be granted and accepted in accordance with the Share Option Scheme and that the Board may at its discretion determine the minimum period for which the Option has to be held before the exercise of the Option
“Participant”	means any person belonging to any of the following classes of participants: (a) any Eligible Employee; (b) any non-executive director (including independent non-executive directors) of our Company, any of its Subsidiaries or any Invested Entity; (c) any supplier of goods or services to any member of our Group or any Invested Entity;

- (d) any customer of our Group or any Invested Entity;
- (e) any person or entity that provides research, development or other technological support to our Group or any Invested Entity;
- (f) any shareholder of any member of our Group or any Invested Entity or any holder of any securities issued by any member of our Group or any Invested Entity;
- (g) any adviser (professional or otherwise) or consultant to any area of business or business development of our Group or any Invested Entity; and
- (h) any other group or classes of participants who have contributed or may contribute, by way of joint venture, business alliance, other business arrangement or otherwise, to the development and growth of our Group,

and for the purposes of this Scheme, the Options may be granted to any company wholly-owned by one or more persons belonging to any of the above classes of Participants or any discretionary object of a Participant which is a discretionary trust

“Scheme Period”

means a period commencing on the Adoption Date and ending on the tenth anniversary of the Adoption Date (both dates inclusive)

(a) Purpose of Share Option Scheme

The purpose of the Share Option Scheme is to provide incentives or rewards to Participants for their contribution to our Group and/or to enable our Group to recruit and retain high-calibre employees and attract human resources that are valuable to our Group and any Invested Entity.

(b) Who may join

Subject to the Share Option Scheme and the GEM Listing Rules, the Board shall be entitled but shall not be bound at any time and from time to time within the Scheme Period to offer to grant to any Participant as the Board may in its absolute discretion select, and subject to such conditions as the Board may think fit, an Option to subscribe for such number of Shares as the Board may determine at a price calculated in accordance with sub-paragraph (d) below.

Upon acceptance of the Option, the Participant shall pay HK\$1.00 to our Company by way of consideration for the grant. The Option will be offered for acceptance for a period of twenty one days from the date on which the Option is granted.

(c) Grant of option and acceptance of offer

No offer of grant of Options shall be made where inside information has come to our Company's knowledge until an announcement of such inside information has been published in accordance with the GEM Listing Rules. In particular, during the period commencing one month immediately preceding the earlier of (i) the date of the Board meeting (as such date is first notified to the Stock Exchange in accordance with the GEM Listing Rule) for approval of the results of our Company for any year, half-year or quarter-year period (if applicable) or any other interim period (whether or not required under the GEM Listing Rules); and (ii) the deadline for our Company to publish an announcement of the results for any year, half-year or quarterly (if applicable) or any other interim period (whether or not required under the GEM Listing Rules), and ending on the date of the announcement of the results, 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 results announcement. The Board may not grant any option to a Participant who is a Director during the periods or times in which such Directors are prohibited from dealing in the Shares prescribed by Rules 5.48 to 5.67 of the GEM Listing Rules or any corresponding codes or securities dealing restrictions adopted by our Company.

No Participant shall be granted Options if exercised in full would result in the total number of Shares already issued under all the Options granted to him which have been exercised and issuable under all the Options granted to him which are for the time being subsisting and unexercised in any 12-month period would exceed 1% of the total number of Shares in issue, provided that if approved by Shareholders in general meeting with such Participant and his close associates (or his associates if such Participant is a connected person) abstaining from voting, our Company may make further grant of Options to such Participant (the "**Further Grant**") notwithstanding that the Further Grant would result in the total number of Shares already issued under all the Options granted to such Participant which have been exercised and issuable under all the Options granted to him which are for the time being subsisting and

unexercised in any 12-month period exceed 1% of the total number of Shares in issue. We must send a circular to the Shareholders and the circular must disclose the identity of the Participant, the number and terms of the Options to be granted and Options previously granted to such Participant and all the information required under the GEM Listing Rules. The number and terms (including the subscription price) of the Options to be granted to such Participant must be fixed before the Shareholders' approval and the date of the meeting of the Board for proposing such further grant of Option should be taken as the date of grant for the purpose of calculating the relevant subscription price.

Unless the Board otherwise determined and stated in the offer of the grant of options to a participant, a grantee is not required to achieve any performance targets before any options granted under the Share Option Scheme can be exercised.

(d) Price of Shares

The subscription price in respect of Share under any particular Option shall be such price as determined by the Board in its absolute discretion at the time of the grant of the relevant Option but in any case the relevant subscription price shall not be less than the highest of (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of the grant of the Option, which must be a trading day; (ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheet for the five trading days immediately preceding the date of the grant of the Option; and (iii) the nominal value of a Share.

For the purpose of determining the relevant subscription price where the Shares have been listed on the Stock Exchange for less than five trading days preceding the date of the grant of the Option, the issue price of the Shares shall be deemed to be the closing price of the Shares for any trading day falling within the five trading days period after the Listing Date.

(e) Maximum amount of Shares

- (i) The total number of Shares which may be issued upon exercise of all Options (excluding for this purpose Options which have lapsed in accordance with the terms of the Share Option Scheme and any other schemes) to be granted under the Share Option Scheme and other schemes must not, in aggregate, exceed 10% of the Shares in issue on the Listing Date. On the basis of 1,000,000,000 Shares in issue on the Listing Date, the limit will be equivalent to 100,000,000 Shares, representing 10% of the Shares in issue as at the Listing Date.
- (ii) Our Company may refresh the 10% limit by seeking prior approval from Shareholders in a general meeting. The total number of Shares which may be issued upon exercise of all Options after the limit as refreshed, in

aggregate, must not exceed 10% of the Shares in issue at the date of such Shareholders' approval from the Shareholders. Options previously granted under the Share Option Scheme or any other schemes (including Options outstanding, cancelled, lapsed or exercised in accordance with the terms of the Share Option Scheme or any other share option scheme) will not be counted for the purpose of calculating the refreshed limit.

- (iii) Our Company may also grant Options beyond the 10% limit by seeking Shareholder approval in a general meeting, provided that the Grantee(s) of such Option(s) must be specifically identified before such approval is sought. In relation to the Shareholder's approval referred to in this paragraph (iii), our Company shall send a circular to its Shareholders containing a generic description of the specified Grantees who may be granted such Options, the number and terms of the Options to be granted, the purpose of granting Options, an explanation as to how the terms of the Options serve such purpose and the information required by the GEM Listing Rules.
- (iv) Notwithstanding the foregoing, our Company must 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, 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 a period to be determined by the Board absolutely, provided that such period shall not be more than ten years from the date upon which the Option is deemed to be granted and accepted in accordance with the Share Option Scheme. The Board may, at its discretion, determine the minimum period for which the Option has to be held before the Option can be exercised.

(g) Rights are personal to grantee

An Option shall be personal to the Grantee and shall not be assignable and no Grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest in favour of any third party over or in relation to any Option. Any breach of the foregoing by the Grantee shall entitle us to cancel any outstanding Option or part thereof granted to such Grantee (to the extent not already exercised) without incurring any liability on our Company.

(h) Rights on death

If a Grantee ceases to be a Participant by reason of death before exercising the Options in full, his legal personal representative(s) may exercise the Options in whole

or in part (to the extent that it has become exercisable and not already exercised prior to such date of death) within a period of twelve months from the date of death, failing which such Option will lapse.

(i) Changes in capital structure

In any event of any alteration in the capital structure of our Company whilst any Option remains exercisable, whether by way of capitalisation of profits or reserves, rights issue or other similar offer of securities to holders of Shares, consolidation, subdivision or reduction or similar reorganisation of the share capital of our Company (other than an issue of Shares as consideration in respect of a transaction to which our Company is a party), such corresponding alterations (if any) shall be made in:

- (i) the number or nominal amount of Shares subject to the Option so far as unexercised; and/or
- (ii) the subscription price; and/or
- (iii) the method of exercise of the Option; and/or
- (iv) the maximum number of Shares referred in sub-paragraph (e) above and the Further Grant referred in sub-paragraph (c) above,

our Company's independent financial adviser or auditors shall certify in writing to the Board to be in their opinion fair and reasonable, provided that any alteration shall be made on the basis that the proportion of the issued share capital of our Company to which a Grantee is entitled after such alteration shall remain the same as that to which he was entitled to before such alteration and that the aggregate subscription price payable by a Grantee on the full exercise of any Option shall remain as close as possible (but shall not be greater than) as it was before such event. No such alteration shall be made the effect of which would be to enable any Share to be issued at less than its nominal value and no such adjustment will be required in circumstances where there is an issue of Shares or other securities of our Group for cash or as consideration in a transaction.

The capacity of our Company's auditors and independent financial advisers is that of experts and not of arbitrators and their certification, in the absence of manifest error, shall be final and binding on our Company and the Participants. The cost of our independent financial advisers or the auditors shall be borne by us.

(j) Rights on take-over

In the event of a general or partial offer, whether by way of take-over, share repurchase offer, or scheme of arrangement or otherwise in like manner is made to all Shareholders, or all such holders other than the offeror and/or any person controlled

by the offeror and/or any person acting in concert (for the purposes of the Takeovers Code) with the offeror, we shall use all reasonable endeavours to procure that such offer is extended to all the Grantees on the same terms, mutatis mutandis, and assuming that they will become, by the exercise in full of the Options granted to them, Shareholders. If such offer becomes or is declared unconditional, a Grantee shall be entitled to exercise his Option (to the extent not already exercised) to its full extent or to the extent specified in the Grantee's notice to us in exercise of his Option at any time before the close of such offer (or any revised offer) or the record date for entitlements under such scheme of arrangement, as the case may be.

(k) *Rights on a compromise or arrangement*

- (i) In the event a notice is given by our Company to the Shareholders to convene a general meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind-up our Company, we shall on the same date as or soon after it despatches such notice to each Shareholder give notice thereof to all Grantees and thereupon, each Grantee, subject to the provisions of all applicable laws (or where permitted under subparagraph (h) above, his legal personal representative(s)) shall be entitled to exercise all or any of his Options (to the extent which has become exercisable and not already exercised) at any time not later than two (2) Business Days prior to the proposed general meeting of our Company by giving notice in writing to us, accompanied by a remittance for the full amount of the aggregate subscription price for the Shares in respect of which the notice is given whereupon we shall as soon as possible and, in any event, no later than the Business Day immediately prior to the date of the proposed general meeting referred to above, allot the relevant Shares to the Grantee credited as fully paid, which Shares shall rank *pari passu* with all other Shares in issue on the date prior to the passing of the resolution to wind-up our Company to participate in the distribution of assets of our Company available in liquidation.
- (ii) In the event of a compromise or arrangement between our Company and its creditors (or any class of them) or between our Company and its members (or any class of them), in connection with a scheme for the reconstruction or amalgamation of our Company, we shall give notice thereof to all Grantees on the same day as it gives notice of the meeting to its members or creditors to consider such a scheme or arrangement, and thereupon any Grantee (or where permitted under sub-paragraph (h) above his legal personal representative(s)) may forthwith and until the expiry of the period commencing with such date and ending with the earlier of the date falling two calendar months thereafter and the date on which such compromise or arrangement is sanctioned by the Court be entitled to exercise his Option (to the extent which has become exercisable and not already exercised), but the exercise of the Option shall be conditional upon such compromise or

arrangement being sanctioned by the Court and becoming effective. Our Company may thereafter require such Grantee to transfer or otherwise deal with the Shares issued as a result of such exercise of his Option so as to place the Grantee in the same position as nearly as would have been the case had such Shares been subject to such compromise or arrangement.

(l) Rights of Grantee ceasing to be a Participant

In the event of the Grantee ceasing to be a Participant for any reason other than his death or termination of his employment on one or more of the grounds specified in the sub-paragraph (n)(iv) below, the Grantee may exercise the Option in accordance with the Share Option Scheme, up to his entitlement at the date of cessation in whole or in part (to the extent which has become exercisable and not already exercised) which date shall be the last actual working day with our Company or the relevant Subsidiary or the relevant Invested Entity whether salary is paid in lieu of notice or not, or such longer period following the date of cessation as the Board may determine.

(m) Lapse on option

An Option shall lapse automatically and not be exercisable (to the extent not already exercised) on the earliest of:

- (i) the expiry of the Option Period (subject to the provisions of the Share Option Scheme);
- (ii) the expiry of any periods referred to in paragraphs (h) and (l);
- (iii) the date on which the offer (or the case may be, revised offer) referred to in sub-paragraph (j) above closes;
- (iv) subject to sub-paragraph (k)(i) above, the date of the commencement of the winding-up of our Company;
- (v) the date on which the Grantee ceases to be a Participant by reason of the termination of his employment on any one or more of the grounds that he has been guilty of misconduct, or has committed an act of bankruptcy or has become insolvent or has made any arrangement or composition with his creditors generally, or has been convicted of any criminal offence involving his integrity or honesty or (if so determined by the Board) on any other ground on which an employer would be entitled to terminate his employment summarily at common law or pursuant to any applicable laws or under the Grantee's service contract with our Company or the relevant Subsidiary or the relevant Invested Entity. A resolution of the Board or the board of directors of the relevant Subsidiary or the board of directors of the relevant Invested Entity to the effect that employment of a Grantee has or

has not been terminated on one or more of the grounds specified in this paragraph shall be conclusive and binding on the Grantee;

- (vi) subject to sub-paragraph (k)(ii) above, the date when the proposed compromise or arrangement becomes effective;
- (vii) the date on which the Grantee commits a breach of sub-paragraph (g) above;
or
- (viii) if our Directors at their absolute discretion determine that the Grantee (other than an Eligible Employee) or his close associate (or his associates if such Grantee is a connected person) has committed any breach of any contract entered into between the Grantee or his close associate (or his associates if such Grantee is a connected person) on the one part and our Group or any Invested Entity on the other part or that the Grantee has committed any act of bankruptcy or has become insolvent or is subject to any winding up, liquidation or analogous proceedings or has made any arrangement or composition with his creditors generally, our Directors shall determine that the outstanding Options granted to the Grantee (whether exercisable or not) shall lapse. In such event, his Options will lapse automatically and will not in any event be exercisable on or after the date on which our Directors have so determined.

(n) *Ranking of Shares*

Shares allotted and issued upon exercise of an Option will be subject to all provisions of our Company's articles of associations amended from time to time and will rank *pari passu* in all respects with the existing fully paid Shares in issue as from the day when the name of the Grantee is registered on the register of members of our Company and accordingly will entitle the holder to participate in all dividends or other distributions paid or made on or after the date when the name of the Grantee is registered on the register of members of our Company other than any dividend or other distribution previously declared or recommended or resolved to be paid or made with respect to a record date which shall be before the date when the name of the Grantee is registered on the register of members of our Company, provided always that when the date of exercise of the Option falls on a day upon which the register of members of our Company is closed then the exercise of the Option shall become effective on the first Business Day in Hong Kong on which the register of members of our Company is re-opened. A Share allotted upon exercise of an Option shall not carry any voting right until the completion of the registration of the Grantee as the holder thereof.

(o) Cancellation of Options granted

Any cancellation of Options granted in accordance with the Share Option Scheme but not exercised must be subject to the prior written consent of the relevant Grantee and approval of our Directors.

Where our Company elects to cancel Options and issue new ones to the same Grantee, the issue of such new Options may only be made under a scheme with available unissued Options (excluding cancelled Options) within the limit approved by the Shareholders.

(p) The Scheme Period

Subject to the termination of the Share Option Scheme, the Share Option Scheme will be valid and effective for the Scheme Period, 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. Options granted during the Scheme Period and remain unexercised immediately prior to the end of the Scheme Period shall continue to be exercisable in accordance with their terms of grant, notwithstanding the expiry of the Share Option Scheme.

(q) Alteration and termination of Share Option Scheme

The terms and conditions of the Share Options Scheme relating to the matters set out in Rule 23.03 of the Listing Rules shall not be altered to the advantage of participants except with the approval of the Shareholders in general meeting, except where such alterations take effect automatically under the existing terms of the Share Option Scheme.

Any alterations to the terms and conditions of the Share Option Scheme which are of a material nature or any change to the terms of options granted must be approved by the Shareholders in general meeting, except where the alterations take effect automatically under the existing terms of the Share Option Scheme.

Any change to the authority of the Board in relation to any alteration to the term of the Share Option Scheme shall be approved by the Shareholders in general meeting except where the alteration take effect automatically under the existing terms of the Share Option Scheme.

The amended terms of the Share Option Scheme or the options must still comply with the relevant requirements of Chapter 23 of the GEM Listing Rules and 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 number of grantees as shall together hold options in respect of not less than three-fourths in nominal value of all Shares then subject to options granted under

the Share Option Scheme and provided further that any alterations to the terms and conditions of the Share Option Scheme which are of a material nature shall first be approved by the Stock Exchange.

Our Company must provide to all grantees all details relating to changes in the terms of the Share Option Scheme during the life of the Share Option Scheme immediately upon such changes taking effect.

Our Company, by ordinary resolution in general meeting, or the Board may at any time terminate the operation of the Share Option Scheme and in such event no further Options will be offered. On termination, the provision of the Share Option Scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of the Options (to the extent not already exercised) granted prior to the termination or otherwise as may be required in accordance with the provision of the Share Option Scheme. Options (to the extent not already exercised) granted prior to such termination shall continue to be valid and exercisable in accordance with the Share Option Scheme.

(r) Granting of option to a Director, chief executive of our Company or substantial Shareholder or any of their close associates

Where Options are proposed to be granted to a Director, chief executive of our Company or substantial Shareholder, or any of their respective close associates, the proposed grant must comply with the requirements of the GEM Listing Rules and be approved by all independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the Options).

If a grant of Options to a substantial shareholder or an independent non-executive Director or their respective close associates will result in the Shares issued and to be issued upon exercise of all Options granted and to be granted (including both exercised and outstanding Options) to such a person in the 12-month period up to and including the date of such grant:

- (i) representing in aggregate over 0.1% of the relevant class of Shares in issue; and
- (ii) having an aggregate value, based on the closing price of the Shares at the date of each grant, in excess of HK\$5 million,

such a further grant of Options must be approved by Shareholders in a general meeting. All connected persons of our Company must abstain from voting at such general meeting, except that any connected person may vote against the resolution provided that his or her intention to do so has been stated in the circular. The circular must contain the information required under the GEM Listing Rules.

In addition, any change in the terms of the Option granted to a substantial Shareholder or an independent non-executive Director, or any of their respective close associates must also be approved by the Shareholders in a general meeting. The circular must contain the following:

- (i) details of the number and terms of the Options (including the Option period, performance targets (if any), basis of determination of exercise price and the rights attached to the Shares or the Option) to be granted to each substantial Shareholder or independent non-executive Director, or any of their respective close associations, which must be fixed before the Shareholders' meeting, and the date of the Board meeting for proposing such further grant should be taken as the date of grant for the purpose of calculating the subscription price;
- (ii) a recommendation from the independent non-executive Directors (excluding any independent non-executive Director who is a Grantee of the Options) to the independent Shareholders as to voting; and
- (iii) all other information as required by the GEM Listing Rules.

The requirements for the grant of an Option to a Director or chief executive of our Company set out in Rules 23.04(1), (2) and (3) shall not apply where the proposed grantee is only a proposed Director or chief executive of our Company.

(s) Conditions of Share Option Scheme

The Share Option Scheme is conditional upon on (i) the passing of resolutions by the Shareholders to adopt the Share Option Scheme and to authorise the Board to grant Options under the Share Option Scheme and to allot and issue Shares pursuant to the exercise of the Share Option Scheme; (ii) the Stock Exchange granting approval of the listing of and permission to deal in the Shares which fall to be issued upon exercise of the Options granted (subject to an initial limit of 10% of the aggregate number of Shares in issue on the Listing Date); and (iii) the commencement of dealings in the Shares on the GEM Stock Exchange.

As at the Latest Practicable Date, no options had been granted or agreed to be granted by our Company under the Share Option Scheme.

Application has been made to the Stock Exchange for the approval of the Share Option Scheme, the subsequent granting of Options under Share Option Scheme and listing of and permission to deal in the Shares which fall to be issued pursuant to the exercise of Options granted under the Share Option Scheme.

E. OTHER INFORMATION**1. Tax and other indemnities**

Mr. Cheuk, Mrs. Cheuk and Million Easy (collectively, the “**Indemnifiers**”) have entered into a deed of indemnity with and in favour of our Company (for itself and as trustee for each member of our Group), being a contract referred to in the paragraph headed “B. Further information about our business – 1. Summary of material contracts” in this appendix, to provide indemnities on a joint and several basis in respect of, among other things:

- (a) taxation falling on any member of our Group resulting from or by reference to any revenue, income, profits or gains granted, earned, accrued, received or made (or deemed to be so granted, earned, accrued, received or made) on or before the date on which the Share Offer becomes unconditional and dealings in shares of our Company first commence on the Stock Exchange (the “**Effective Date**”) or any transactions, matters, things, event, act or omission occurring or deemed to occur on or before such date, whether alone or in conjunction with any other transaction, matter, thing, event, act, omission or circumstance whenever occurring, and whether or not such taxation is chargeable against or attributable to any other person, firm, company or corporation and including any and all taxation resulting from the receipt by any member of our Group on or prior to the Effective Date of any amounts payable hereunder; and
- (b) all costs (including all legal costs), expenses, interests, penalties, fines, charges or other liabilities which any member of our Group may properly incur in connection with:
 - (i) the investigation, assessment, the contesting of any claim under (a) above;
 - (ii) the settlement of any claim under (a) above;
 - (iii) any disputes, arbitrations or legal proceedings in which any member of our Group claims under or in respect of (a) above, and in which judgment is given for any member of our Group; or
 - (iv) the enforcement of any such settlement or judgments, falling on any member of our Group which might be payable by our Company in respect of any incomes, profits or gains earned, accrued, received or entered into (or deemed to be so earned, accrued, received or entered into).

The Indemnifiers have also, under the deed of indemnity abovementioned, agreed and undertaken to each of the members of our Group and at all times keep the same indemnified on demand from and against any costs, expenses, losses, damages, claims or

penalties that our Group may suffer or incur, as a result of or in connection with, among others, our Group's non-compliance matters as such matters subsist on or prior to the Effective Date.

The Indemnifiers will, however, not be liable under the deed of indemnity for taxation, among other:

- (a) to the extent that provision has been made for such taxation in the audited consolidated accounts of our Group or the audited accounts of any member of our Group for an accounting period ended on or before 31 December 2017;
- (b) falling on any member of our Group as a result of any transaction entered into by any member of our Group on or after the Effective Date in the ordinary course of business, or in the ordinary course of acquiring or disposing of capital assets;
- (c) to the extent that such taxation arises or is incurred as a consequence of any change in the law, rules or regulations, or the interpretation or practice thereof by the Inland Revenue Department or any other statutory or governmental authority in any part of the world having retrospective effect coming into force after the Effective Date or to the extent that such taxation arises or is increased by an increase in rates of taxation after the Effective Date with retrospective effect (except the imposition of or an increase in the rate of Hong Kong profits tax or any tax of any part of the world on the profits of companies for the current or any earlier financial period);
- (d) to the extent that such taxation is discharged by another person who is not a member of our Group and that none of the members of our Group is required to reimburse such person in respect of the discharge of the taxation; or
- (e) to the extent of any provision or reserve made for taxation in the audited accounts referred to in sub-paragraph (a) above which is finally established to be an overprovision or an excessive reserve, provided that the amount of any such provision or reserve applied to reduce the liability of the Indemnifiers or any of them in respect of taxation shall not be available in respect of any such liability arising thereafter.

Our Directors have been advised that no material liability for estate duty is likely to fall upon any member of our Group.

2. Litigation

Save as disclosed in this prospectus, our Directors confirm that as at the Latest Practicable Date, our Group was not engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is pending or threatened by or against any member of our Group.

3. The Sole Sponsor

The Sole Sponsor has made an application on behalf of our Company to the Stock Exchange for listing of and permission to deal in our Shares in issue and to be issued as mentioned herein and any Shares which may fall to be issued pursuant to the exercise of the options which may be granted under the Share Option Scheme.

The Sole Sponsor satisfies the independence criteria applicable to sponsors as set out in Rule 6A.07 of the GEM Listing Rules.

The Sole Sponsor has received or will receive a financial advisory and documentation fee of approximately HK\$5.5 million and will be reimbursed for its expenses.

4. Preliminary expenses

The preliminary expenses relating to the incorporation of our Company are approximately HK\$67,000 and are payable by our Company.

5. Promoter

Our Company has no promoter for the purpose of the GEM Listing Rules.

6. Qualifications of experts

The following are the respective qualifications of the experts who have given their opinion or advice which is contained in this prospectus:

Name	Qualification
TC Capital International Limited	a corporation licensed to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO
HLB Hodgson Impey Cheng Limited	Certified Public Accountants

Name	Qualification
Frost & Sullivan International Limited	Industry Consultant
Shu Jin Law Firm	Legal advisers of our Company as to the PRC laws
Mr. Chan Chung	Barrister-at-law in Hong Kong
Conyers Dill & Pearman	Cayman Islands attorneys-at-law
Asset Appraisal Limited	Valuer

7. Consents of experts

Each of the experts whose names are set out in the sub-section headed “E. Other information – 6. Qualifications of experts” in this appendix has given and has not withdrawn its written consents to the issue of this prospectus, with the inclusion of its letters and/or reports and/or opinions and/or summary thereof (as the case may be) and/or reference to its name included herein in the form and context in which they respectively appear.

8. Binding effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

9. Registration procedures

Conyers Trust Company (Cayman) Limited will maintain the principal register of members of our Company in the Cayman Islands and Tricor Investor Services Limited will maintain a branch register of members of our Company in Hong Kong. Save where our Directors otherwise agree, all transfers and other documents of title to Shares must be lodged for registration with, and registered by, our Company’s branch share registrar in Hong Kong and may not be lodged in the Cayman Islands. We have made all necessary arrangements to enable the Shares to be admitted into CCASS.

10. Material adverse change

Our Directors confirm that there had been no material adverse change in the financial or trading position or prospects of our Company or its subsidiaries since 31 December 2017 (being the date to which the latest audited financial statements of our Group were made up) and up to the Latest Practicable Date, save as disclosed in the paragraph headed “Summary – Recent Developments” in this prospectus.

11. 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.

(c) Consultation with professional advisers

We recommend intending holders of the Shares 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 Share Offer 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.

12. Miscellaneous

(a) Save as disclosed in this prospectus:

(i) Within the two years immediately preceding the date of this prospectus:

(aa) 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 up either for cash or for a consideration otherwise than in cash;

- (bb) no commissions, discounts, brokerages or other special terms have been granted or agreed to be granted in connection with the issue or sale of any share or loan capital of any member of our Group and no commission has been paid or is payable in connection with the issue or sale of any share or loan capital of any member of our Group;
- (cc) no commission has been paid or payable (except to sub-underwriter) for subscribing or agreeing to subscribe, procuring or agreeing to procure subscriptions, for any share or loan capital of any member of our Group;
- (dd) no founder, management or deferred shares or any debentures of our Company have been issued or agreed to be issued; and
- (ee) no share or loan capital of any member of our Group is under option or agreed conditionally or unconditionally to be put under option;
- (ii) there has not been any interruption in the business of our Group which may have or have had a significant effect on the financial position of our Group in the 24 months immediately preceding the date of this prospectus;
- (iii) none of the parties listed in the paragraph headed “E. Other information – 6. Qualifications of experts” in this prospectus:
 - (aa) is interested beneficially or non-beneficially in any securities in any member of our Group, including the Shares; or
 - (bb) has any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any securities in any member of our Group, including the Shares;
- (iv) our Company and its subsidiaries did not have any debt securities issued or outstanding, or authorised or otherwise created but unissued, or any term loans whether guaranteed or secured as at the Latest Practicable Date;
- (v) our Directors have been advised that, under Cayman Islands law, the use of a Chinese name by our Company in conjunction with the English name does not contravene Cayman Islands law;
- (vi) no company within our Group is presently listed on any stock exchange or traded on any trading system;
- (vii) our Group has no outstanding convertible debt securities;
- (viii) the English text of this prospectus shall prevail over the Chinese text; and

- (ix) there are no arrangements in existence under which future dividends are waived or agreed to be waived.

13. Bilingual document

The English language and Chinese language versions of this prospectus are being published separately in reliance upon the exemption provided in section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were (i) copies of the Application Forms; (ii) copies of the written consents referred to in the paragraph headed “E. Other information – 7. Consents of experts” in Appendix V to this prospectus; and (iii) copies of the material contracts referred to in the paragraph headed “B. Further information about our business – 1. Summary of material contracts” in Appendix V to this prospectus.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of David Fong & Co., at Unit A, 12/F, China Overseas Building, 139 Hennessy Road, Wanchai, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

- (a) the Memorandum of Association and Articles of Association;
- (b) the Accountants’ Report of our Group for each of the two years ended 31 December 2017, the text of which is set out in Appendix I to this prospectus;
- (c) the audited consolidated financial statements of our Group for each of the two years ended 31 December 2017;
- (d) the independent reporting accountants’ assurance report on the compilation of the unaudited pro forma financial information, the text of which is set out in Appendix II to this prospectus;
- (e) the letter, summary of valuation and valuation certificates relating to the property interests of our Group prepared by Asset Appraisal Limited, the text of which is set out in Appendix III to this prospectus;
- (f) the rules of the Share Option Scheme referred to in the paragraph headed “D. Share Option Scheme” in Appendix V to this prospectus;
- (g) the letter of advice prepared by Conyers Dill & Pearman summarising certain aspects of the company law of the Cayman Islands referred to in Appendix IV to this prospectus;
- (h) the legal opinion issued by the Legal Counsel;
- (i) the Companies Law;

**APPENDIX VI DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES
AND AVAILABLE FOR INSPECTION**

- (j) the material contracts referred to in the paragraph headed “B. Further information about our business – 1. Summary of material contracts” in Appendix V to this prospectus;
- (k) the consents of experts referred to in the paragraph headed “E. Other information – 7. Consents of experts” in Appendix V to this prospectus;
- (l) the Industry Report; and
- (m) Legal opinion issued by Shu Jin Law Firm.

HANVEY GROUP HOLDINGS LIMITED

恆偉集團控股有限公司