

Dominate Group Holdings Company Limited

(Incorporated in the Cayman Islands with limited liability)

Stock code: 8537

Share Offer

Sole Sponsor



Joint Bookrunners and Joint Lead Managers



平安證券
PINGAN SECURITIES

Co-Manager



IMPORTANT

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

Dominate Group Holdings Company Limited

(Incorporated in the Cayman Islands with limited liability)

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

Number of Offer Shares : 187,500,000 Shares
Number of Placing Shares : 168,750,000 Shares (subject to re-allocation)
Number of Public Offer Shares : 18,750,000 Shares (subject to re-allocation)
Offer Price : Not more than HK\$0.34 per Offer Share and expected to be not less than HK\$0.30 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 per Share
Stock code : 8537

Sole Sponsor



Joint Bookrunners and Joint Lead Managers



Co-Manager



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

A copy of this prospectus, having attached thereto the documents specified in the section headed "Documents delivered to the Registrar of Companies and available for inspection" in Appendix V 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 of the other documents referred to above.

The Offer Price is expected to be determined by agreement between the Joint Lead Managers (for themselves and on behalf of the Underwriters) and the Company on or around Friday, 5 October 2018 or such later date as may be agreed by the Joint Lead Managers (for themselves and on behalf of the Underwriters), and the Company, and in any event no later than Saturday, 6 October 2018. The Offer Price will not be more than HK\$0.34 per Offer Share and is currently expected to be not less than HK\$0.30 per Offer Share unless otherwise announced.

Investors applying for the Public Offer Shares must pay, on application, the indicative maximum Offer Price of HK\$0.34 per Offer Share together with brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%, subject to refund. The Joint Lead Managers (for themselves and on behalf of the Underwriters), with the Company's consent, may reduce the indicative Offer Price range stated in this prospectus and/or the number of Offer Shares being offered at any time prior to the morning of the last day for lodging applications under the Public Offer. In such a case, a notice of the reduction of the indicative Offer Price range and/or the number of Offer Shares will be published on the Company's website at www.dghcl.com and the website of the Stock Exchange at www.hkexnews.hk, not later than the morning of the last day for lodging applications under the Public Offer. If, for any reason, the Company and the Joint Lead Managers (for themselves and on behalf of the Underwriters) are unable to reach an agreement on the Offer Price by that date or such later date as agreed by the Company and the Joint Lead Managers (for themselves and on behalf of the Underwriters), the Share Offer will not proceed and will lapse.

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

Prospective investors of the Share Offer should note that the Sole Sponsor and/or the Joint Lead Managers (for themselves and on behalf of the Underwriters) is entitled to terminate their obligations under the Underwriting Agreements by notice in writing to the Company, upon the occurrence of any of the events set forth under the section headed "Underwriting — Underwriting arrangements and expenses — Public Offer — Grounds for termination" in this prospectus at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date.

29 September 2018

CHARACTERISTICS OF GEM

GEM has been positioned as a market designed to accommodate small and mid-sized companies to which a higher investment risk may be attached than other companies listed on the Main Board. 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.

Given that the companies listed on GEM are generally small and mid-sized companies, 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 website of the Stock Exchange at www.hkexnews.hk in order to obtain up-to-date information on GEM-listed issuers.

EXPECTED TIMETABLE

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

2018
(Note 1)

Latest time for completing electronic applications under HK eIPO White Form through the designated website at www.hkeipo.hk (Note 2)	11:30 a.m. on Friday, 5 October
Application lists open (Note 3)	11:45 a.m. on Friday, 5 October
Latest time for lodging WHITE and YELLOW Application Forms	12:00 noon on Friday, 5 October
Latest time for giving electronic application instructions to HKSCC (Note 4)	12:00 noon on Friday, 5 October
Latest time for completing payment of HK eIPO White Form applications by effecting internet banking transfer(s) or PPS payment transfer(s)	12:00 noon on Friday, 5 October
Application lists of the Public Offer close	12:00 noon on Friday, 5 October
Expected Price Determination Date (Note 5)	Friday, 5 October
Announcement of the Offer Price, the level of indication of interest in the Placing, level of applications in the Public Offer and basis of allotment of the Public Offer Shares under the Public Offer to be published on the Company's website at www.dghcl.com and the website of the Stock Exchange at www.hkexnews.hk on or before	Thursday, 11 October
Results of applications and Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Public Offer to be available through a variety of channels as described under the section headed "How to apply for Public Offer Shares — 11. Publication of results" in this prospectus at the Company's website at www.dghcl.com and the website of the Stock Exchange at www.hkexnews.hk on or before	Thursday, 11 October

EXPECTED TIMETABLE

Results of allocations in the Public Offer will be available at www.tricor.com.hk/ipo/result with a “search by ID/ Business Registration Number” function on Thursday, 11 October

Despatch/collection of Share certificates of the Offer
Shares or deposit of Share certificates of the Offer
Shares into CCASS in respect of wholly or partially successful applications under the Public Offer on or around (*Notes 6, 8, 11 and 13*) Thursday, 11 October

Despatch/collection of **HK eIPO White Form** e-Auto refund payment instructions/refund cheques in respect of wholly successful (if applicable) and wholly or partially unsuccessful applications under the Public Offer on or around (*Notes 7, 8, 9, 10, 11 and 12*) Thursday, 11 October

Dealings in the Shares on GEM to commence at 9:00 a.m. on Friday, 12 October

Notes:

1. All times and dates refer to Hong Kong local time and dates unless otherwise stated in 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.
2. You will not be permitted to submit your application through the designated website at www.hkeipo.hk after 11: 30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained a payment reference number from the designated website at or before 11: 30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12 : 00 noon on the last day for submitting applications, when the application lists close.
3. If there is a “black” rainstorm warning or a tropical cyclone warning signal number 8 or above in force in Hong Kong at any time between 9:00a.m. and 12:00 noon on Friday, 5 October 2018, the application lists will not open on that day. For further details, please see the section headed “How to apply for Public Offer Shares — 10. Effect of bad weather on the opening of the application lists” in this prospectus.
4. Applicants who apply for the Public Offer Shares by giving electronic application instructions to HKSCC via CCASS should refer to the section headed “How to apply for Public Offer Shares — 5. Applying by giving electronic application instructions to HKSCC via CCASS” in this prospectus.
5. The Price Determination Date is expected to be on or about Friday, 5 October 2018 (or such later date as agreed between the Company and the Joint Lead Managers (for themselves and on behalf of the Underwriters)). If the Joint Lead Managers (for themselves and on behalf of the Underwriters) and the Company are unable to reach an agreement on the Offer Price on the Price Determination Date, the Share Offer will not proceed and will lapse accordingly.
6. Share certificates for the Public Offer Shares are expected to be issued on or about Thursday, 11 October 2018 but will only become valid certificates of title at 8:00 a.m. on Friday, 12 October 2018 provided that (a) the Share Offer has become unconditional in all respects; and (b) none of the Underwriting Agreements has been terminated in accordance with its terms.

EXPECTED TIMETABLE

7. e-Auto Refund payment instruction/refund cheque(s) will be issued to you, or if you are joint applicants, to the first-named applicant on your Application Form in respect of wholly or partially unsuccessful applications and also in respect of wholly or partially successful applications in the event that the final Offer Price is less than the maximum Offer Price payable on application. Part of your Hong Kong identity card number/passport number, or, if you are joint applicants, part of the Hong Kong identity card number/passport number of the first-named applicant provided by you may be printed on your refund cheque, if any. Such data 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.
8. Applicants for 1,000,000 Public Offer Shares or more on **WHITE** Application Form(s) or through the **HK eIPO White Form Service** and have provided all information required may collect their refund cheques (if applicable) and/or share certificates (if applicable) personally from the Company's Hong Kong Branch Share Registrar, Tricor Investor Services Limited from 9:00 a.m. to 1:00 p.m. on Thursday, 11 October 2018 or any other day as announced by the Company as the date of despatch of share certificates/refund cheques. Individuals who are eligible for personal collection must not authorise any other person(s) to make collection on their behalf. Corporate applicants who are eligible for personal collection must attend by their authorised representative(s) bearing a letter of authorisation from such corporation(s) stamped with the corporation's chop. Both individuals and authorised representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to the Hong Kong Branch Share Registrar.
9. Applicants for 1,000,000 Public Offer Shares or more on **YELLOW** Application Forms and have provided all information required may collect their refund cheques, if any, in person but may not collect their share certificates personally which will be deposited into CCASS for the credit of their designated CCASS Participants' stock accounts or CCASS Investor Participants' stock accounts, as appropriated. The procedures for collection of refund cheques for **YELLOW** Application Form applicants are the same as those for **WHITE** Application Form applicants.
10. For applicants who have applied through the **HK eIPO White Form Service** and paid the application monies from a single bank account, refund monies (where applicable) will be despatched to their application payment bank account in the form of e-Auto Refund payment instructions on Thursday, 11 October 2018. For applicants who have applied through the **HK eIPO White Form Service** and paid the application monies from multiple bank accounts, refund monies (where applicable) in the form of refund cheque(s) will be despatched on or Thursday, 11 October 2018 by ordinary post at their own risk. Please refer to the section headed "How to apply for Public Offer Shares — 14. Despatch/collection of share certificates and refund monies" in this prospectus for details.
11. Uncollected share certificates (if applicable) and refund cheques (if applicable) will be despatched by ordinary post at the applicant's own risk to the address specified in the relevant Application Form. For further information, applicants should refer to the section headed "How to apply for Public Offer Shares — 14. Despatch/collection of share certificates and refund of refund monies" in this prospectus.
12. Refund cheques will be despatched in respect of wholly or partially unsuccessful applications and in respect of successful applications if the final Offer Price is less than the maximum Offer Price of HK0.34 per Offer Share.
13. Share certificates will only become valid certificates of title provided that the Share Offer has become unconditional in all respects and neither of the Underwriting Agreements has been terminated in accordance with its terms. Investors who trade Shares on the basis of publicly available allocation details prior to the receipt of their share certificates or prior to the share certificates becoming valid certificates of title do so entirely at their own risk.

The above expected timetable is a summary only. Particulars of the structure of the Share Offer, including the conditions thereto, are set out in the sections headed "Structure and conditions of the Share Offer" and "How to apply for Public Offer Shares" in this prospectus.

CONTENTS

This prospectus is issued by the 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 security 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 or invitation in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of the Offer Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong. The distribution of this prospectus and the offering and sale of the Offer Shares in other jurisdiction are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdiction pursuant to registration with or authorisation by the relevant securities regulatory authorities or an exemption therefrom.

You should rely only on the information contained in this prospectus to make your investment decision. The Company, the Sole 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 the Company, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their respective affiliates, directors, officers, employees, agents or representatives, or any other person or party involved in the Share Offer.

The contents of the Company's website at www.dghcl.com do not form part of this prospectus.

	<i>Page</i>
CHARACTERISTICS OF GEM	i
EXPECTED TIMETABLE	ii
CONTENTS	v
SUMMARY	1
DEFINITIONS	11
GLOSSARY OF TECHNICAL TERMS	21
FORWARD-LOOKING STATEMENTS	22
RISK FACTORS	23
INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER	40
DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER	45
CORPORATE INFORMATION	48
INDUSTRY OVERVIEW	50
REGULATORY OVERVIEW	60
HISTORY, DEVELOPMENT AND REORGANISATION	81

CONTENTS

BUSINESS	93
RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS	143
CONNECTED TRANSACTIONS	149
DIRECTORS AND SENIOR MANAGEMENT	152
SUBSTANTIAL SHAREHOLDERS	167
SHARE CAPITAL	169
FINANCIAL INFORMATION	172
FUTURE PLANS AND USE OF PROCEEDS	221
UNDERWRITING	229
STRUCTURE AND CONDITIONS OF THE SHARE OFFER	239
HOW TO APPLY FOR PUBLIC OFFER SHARES	245
APPENDIX I — ACCOUNTANTS' REPORT	I-1
APPENDIX II — UNAUDITED PRO FORMA FINANCIAL INFORMATION	II-1
APPENDIX III — SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW	III-1
APPENDIX IV — STATUTORY AND GENERAL INFORMATION	IV-1
APPENDIX V — DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES AND AVAILABLE FOR INSPECTION	V-1

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 of this prospectus. You should read the whole prospectus including the appendices hereto, which constitute an integral part of this prospectus, 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. Various expressions used in this summary are defined under the sections headed “Definitions” and “Glossary of technical terms” in this prospectus.

OVERVIEW

The Group is a vertically integrated wholesale and retail jeweller with a network of eight retail stores under the brand name of “Chong Fai Jewellery (創輝珠寶)” strategically located in Kowloon and the New Territories in Hong Kong. The Group possesses the means to control the diversity, quality and pricing of its own jewellery designs produced in-house at its production facility in Shenzhen, Guangdong Province, the PRC. The Group also engages in the wholesale of the Group’s jewellery products to other customers including other jewellery retailers, and the trading of recycled gold products. For the years ended 31 March 2017 and 2018, the Group’s revenue amounted to approximately HK\$203.5 million and HK\$173.0 million, respectively, and net profit amounted to approximately HK\$3.9 million and HK\$4.8 million, respectively.

The Group’s principal products are jewellery products, including gem-set jewellery products and pure gold products such as earrings, rings, pendants, necklaces, bracelets. The general target market of the Company is the market of mid-to-high-end jewellery products (i.e. products with a retail price from HK\$2,000 to HK\$100,000 per piece). During the Track Record Period, the Group sourced certain generic and easy-to-make products from external producers. Save for the externally sourced simple jewellery products, the Group’s jewellery products have been designed in-house. The Group has internal pricing and discount policies to govern the product pricing and discounts offered to its customers.

In light of the downward market trend before the year ended 31 March 2017, the Group’s management implemented a series of sales promotions involving discounts of its gem-set jewellery products during the year ended 31 March 2017. For the year ended 31 March 2018, since the market was recovering, less discounts were given to customers. Instead, the Group focused on selling jewellery products of lower unit selling price because these products generate higher profit margins. As a result, the Group’s (i) total sales volume of gem-set jewellery products and pure gold products increased from approximately 50,000 units to approximately 55,000 units during the year ended 31 March 2018; (ii) average selling price of gem-set jewellery products and pure gold products decreased from approximately HK\$3,800 during the year ended 31 March 2017, to approximately HK\$2,900 during the year ended 31 March 2018; and (iii) gross profit of gem-set jewellery products and pure gold products increased from approximately HK\$52.6 million during the year ended 31 March 2017 to approximately HK\$56.9 million during the year ended 31 March 2018.

SUMMARY

The following table sets forth a breakdown of the Group's revenue by jewellery product types and by business segments (sales channels) during the Track Record Period:

	Year ended 31 March									
	2017					2018				
	Revenue	Gross profit	Gross profit margin	Sales volume	Average selling price	Revenue	Gross profit	Gross profit margin	Sales volume	Average selling price
	<i>HK\$'000</i>	<i>HK\$'000</i>	%	<i>Unit</i>	<i>HK\$</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	%	<i>Unit</i>	<i>HK\$</i>
Sales by product										
Gem-set jewellery products ⁽²⁾	134,667	44,704	33.2	34,638	3,888	107,246	45,793	42.7	37,609	2,858
Pure gold products ⁽³⁾	56,373	7,854	13.9	15,373	3,667	51,901	11,102	21.4	17,383	2,986
Sub-total	191,040	52,558	27.5	50,011	3,820	159,147	56,895	35.7	54,992	2,894
Trading of recycled gold products ⁽¹⁾	12,424	1,264	10.2	N/A	N/A	13,873	535	3.9	N/A	N/A
Total	203,464	53,822	26.5	50,011	3,820	173,020	57,430	33.2	54,992	2,894

	Year ended 31 March									
	2017					2018				
	Revenue	Gross profit	Gross profit margin	Sales volume	Average selling price	Revenue	Gross profit	Gross profit margin	Sales volume	Average selling price
	<i>HK\$'000</i>	<i>HK\$'000</i>	%	<i>Unit</i>	<i>HK\$</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	%	<i>Unit</i>	<i>HK\$</i>
Sales by business										
Retail	122,133	39,575	32.4	34,137	3,578	113,312	47,094	41.6	34,911	3,246
Wholesale	68,907	12,983	18.8	15,874	4,341	45,835	9,801	21.4	20,081	2,283
Sub-total	191,040	52,558	27.5	50,011	3,820	159,147	56,895	35.7	54,992	2,894
Trading of recycled gold products ⁽¹⁾	12,424	1,264	10.2	N/A	N/A	13,873	535	3.9	N/A	N/A
Total	203,464	53,822	26.5	50,011	3,820	173,020	57,430	33.2	54,992	2,894

Notes:

- (1) Trading of recycled gold products are measured by weight. Sales volume in units and average selling price in HK\$ are therefore not available.

The following table sets forth the sales volume, average selling price and price range of the Group's recycled gold products by weight during the Track Record Period:

	Year ended 31 March	
	2017	2018
Sales volume by weight (tael)	1,063	1,184
Average selling price (HK\$ per tael)	11,682	11,715

As the selling price of recycled gold products is set according to the market price of gold at the time of the transactions and the actual weight of the recycled gold products, the price range of recycled gold is represented by the market price in HK\$ per tael during the relevant periods.

- (2) Price range of gem-set jewellery products: HK\$1,000 - HK\$2,740,000.
- (3) Price range of pure gold products: HK\$200 - HK\$73,000.

SUMMARY

For further details of the Group's business model, please refer to the section headed "Business — Business model" in this prospectus.

PRODUCTION

Save for the externally sourced simple jewellery products, the Group's jewellery designs are produced in-house at the Group's production facility in Shenzhen, Guangdong Province, the PRC and after production, the finished products would be transported to the Group's office and retail stores in Hong Kong for sale. Generally, the production process of the Group's jewellery products involves hand sketching, digital design, modelling and mould production, gold casting, filing, diamond and gemstone matching, stone setting, polishing, electroplating and quality control and packaging. The Group's production output was approximately 17,825 and 19,311 jewellery pieces for the years ended 31 March 2017 and 2018, respectively, with an utilisation rate of approximately 67.6% and 67.5% in the corresponding period. For further details of the Group's production process, please refer to the section headed "Business — Production" in this prospectus.

CUSTOMERS

The majority of the Group's customers are retail customers while the Group's customers also include wholesale customers, other customers who purchased products at the Group's head office and customers who purchased recycled gold products from the Group such as the Group's largest customer ("Customer A") for the years ended 31 March 2017 and 2018 (also known as Supplier C). For the years ended 31 March 2017 and 2018, sales to the Group's five largest customers in aggregate accounted for approximately 9.3% and 13.2% of the Group's total revenue, respectively. During the same period, the Group's single largest customer accounted for approximately 6.1% and 8.0% of the Group's total revenue, respectively and aggregate sales to the Group's five largest customers accounted for less than 30% of the Group's total revenue for the respective period.

Retail

The following table sets forth the Group's revenue from its retail locations during the Track Record Period:

	Year ended 31 March							
	2017				2018			
	Revenue	Gross profit	Gross profit margin	Profit before tax contribution (Note 3)	Revenue	Gross profit	Gross profit margin	Profit before tax contribution (Note 3)
<i>HK\$'000</i>	<i>HK\$'000</i>	<i>%</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>%</i>	<i>HK\$'000</i>	
Kowloon Bay (Note 1)	34,856	10,167	29.2	587	31,703	11,953	37.7	1,964
Shatin	30,289	10,064	33.2	1,004	21,455	9,094	42.4	598
Tuen Mun (Note 2)	N/A	N/A	N/A	N/A	15,978	7,253	45.4	2,357
Sham Shui Po (Note 2)	21,958	6,342	28.9	1,532	16,357	6,146	37.6	2,040
Mongkok	14,413	5,283	36.7	1,932	13,384	5,894	44.0	2,990
Tsuen Wan	14,851	4,960	33.4	189	11,232	4,939	44.0	603
Hunghom	5,766	2,759	47.8	501	3,203	1,815	56.7	234
Total	122,133	39,575	32.4	5,746	113,312	47,094	41.6	10,786

Notes:

- (1) The two retail stores in Kowloon Bay are located at the same shopping mall. Due to their close proximity and synergy effect, combined point of sale system is used for both stores and the Group classifies the two retail stores as one retail store internally. Thus, they are treated as one unit for the purpose of this analysis.
- (2) The retail store in Sham Shui Po was not in operation until April 2016 and the retail store in Tuen Mun was not in operation until April 2017.
- (3) Profit before tax contribution by shop assumes the respective shop's rental and staffs costs are subtracted from the respective shop's gross profit.
- (4) The gross profit margin for Hunghom store is higher than other stores as it focused only on gem-set jewellery products and not pure gold products.

SUMMARY

SUPPLIERS

The Group's major suppliers are suppliers of raw materials, in particular, pure gold and diamonds. For the years ended 31 March 2017 and 2018, purchases from the Group's five largest suppliers, in aggregate, accounted for approximately 56.0% and 52.5% of the Group's total purchases, respectively. During the same period, purchases from the single largest supplier accounted for approximately 30.4% and 24.2% of the Group's total purchases, respectively. One of the Group's five largest suppliers during the Track Record Period (Supplier C) was also one of Group's major customer (Customer A). Revenue generated from Supplier C during the Track Record Period was approximately HK\$12.3 million and HK\$13.9 million for the years ended 31 March 2017 and 2018, respectively, or approximately 6.1% and 8.0%, respectively, of the Group's total revenue. In the same period, the Group's purchases from Supplier C were approximately HK\$7.7 million and HK\$13.0 million, respectively, or approximately 5.1% and 11.6%, respectively, of the Group's total purchases.

KEY FINANCIAL DATA

The tables below sets forth a summary of the Group's combined financial information for the years ended 31 March 2017 and 2018, which has been extracted from the Accountants' Report as set out in Appendix I to this prospectus:

Highlights of combined statements of profit or loss

	Year ended 31 March	
	2017	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	203,464	173,020
Cost of goods sold	(149,642)	(115,590)
Gross profit	53,822	57,430
Other income	77	67
Other gains or losses ⁽¹⁾	(5,690)	(475)
Selling and distribution costs	(25,026)	(28,778)
General and administrative expenses	(12,174)	(10,710)
Listing expenses	—	(8,151)
Finance costs	(1,128)	(1,371)
Profit before taxation	9,881	8,012
Taxation	(6,008)	(3,177)
Profit for the year	<u>3,873</u>	<u>4,835</u>
Non-HKFRS Measure⁽²⁾:		
Profit for the year	3,873	4,835
Add: Non-recurring items		
— One off payment in respect of tax incident	5,667	—
— Additional tax provision in respect of tax incident	3,618	—
— Listing expenses	—	8,151
Adjusted net profit for the year	<u><u>13,158</u></u>	<u><u>12,986</u></u>

Notes:

- Other gains or losses mainly represented the additional other payments in respect of the tax incident during the year ended 31 March 2017.
- "Adjusted net profit for the year" is a non-HKFRS measure, which excludes certain one-off items, so as to better reflect the Group's operating performance.

SUMMARY

The Group's net profit increased from approximately HK\$3.9 million for the year ended 31 March 2017 to approximately HK\$4.8 million for the year ended 31 March 2018. The increase was mainly due to (i) a substantial decrease in cost of goods sold; (ii) a substantial decrease in other losses; and (iii) a decrease in income tax expenses. For further details, please refer to the section headed "Financial information — Year-to-year comparison of results of operation" in this prospectus.

Highlights of combined statements of financial position

	At 31 March	
	2017	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current assets	4,818	3,983
Current assets	139,357	134,015
Current liabilities	88,963	84,533
Net current assets	50,394	49,482
Total equity	55,212	53,465

Highlights of combined statements of cash flows

	Year ended 31 March	
	2017	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
Operating cash flows before movements in working capital	16,209	9,072
Movements in working capital	(5,892)	13,140
Cash generated from operations	10,317	22,212
Hong Kong Profits Tax paid	(1,804)	(8,551)
PRC Enterprise Income Tax paid	(119)	(233)
Net cash generated from operating activities	8,394	13,428
Net cash used in investing activities	(967)	(240)
Net cash generated from (used in) financing activities	4,954	(8,182)
Net increase in cash and cash equivalents	12,381	5,006
Cash and cash equivalents at beginning of the year	7,082	19,397
Effect of foreign exchange rate changes, net	(66)	60
Cash and cash equivalents at end of the year	19,397	24,463

The Group recorded net cash flow from operating and investing activities for the years ended 31 March 2017 and 2018. The Group recorded net cash used in financing activities for the year ended 31 March 2018 mainly due to net repayment of bank borrowings and amounts owed to directors. For further details, please refer to the section headed "Financial information — Liquidity and capital resources" in this prospectus.

SUMMARY

FINANCIAL RATIOS

	At/year ended 31 March	
	2017	2018
Gross profit margin (%)	26.5	33.2
Net profit margin (%)	1.9	2.8
Current ratio (<i>times</i>)	1.6	1.6
Quick ratio (<i>times</i>)	0.7	0.7
Debt to equity ratio (%)	40.7	46.5
Gearing ratio (%)	75.8	92.4
Interest coverage (<i>times</i>)	9.8	6.8
Return on equity (%)	7.0	9.0
Return on total assets (%)	2.7	3.5

The Group's relatively high gearing ratios as at 31 March 2017 and 2018 were primarily attributable to the Group's increased bank borrowings during the Track Record Period as before the Listing, the Group relied on external debt financing as one of its major sources of financing to fund the working capital requirements. As the Listing will enable the Group to have access to capital market for raising funds both at the time of the Listing and at later stages such as through the issuance of equity and/or debt securities as and when necessary in furtherance of its strategies and expansion plans with relatively lower finance costs, the Directors believe that the additional capital would alleviate the Group's gearing ratio and overall financial risk profile after the Listing.

For further details, please refer to the section headed "Financial information — Key financial ratios" in this prospectus.

PRINCIPAL COST COMPONENTS

The principal components of the Group's expenses were (i) cost of goods sold; (ii) operating lease charges of rented premises; and (iii) staff costs. For further details, please refer to the section headed "Financial information — Principal components of the Group's combined statements of profit or loss and other comprehensive income" in this prospectus.

Summary of principal cost components

	Year ended 31 March	
	2017	2018
	HK\$'000	HK\$'000
Cost of goods sold	149,642	115,590
Staff costs and welfare (for the retail stores)	11,121	12,765
Rent (Operating lease charges)	10,496	11,304

CONTROLLING SHAREHOLDERS

Upon the completion of the Share Offer and the Capitalisation Issue (taking no account of any Shares which may be issued upon the exercise of any options that may be granted under the Share Option Scheme), MGH Limited, which is wholly owned by Mr. Fu, Ms. Fu and Ms. Cheung, will be interested in 75% of the enlarged issued share capital of the Company. As such, Mr. Fu, Ms. Cheung, Ms. Fu and MGH Limited will be a group of Controlling Shareholders within the meaning of the GEM Listing Rules. For further details, please refer to the section headed "Relationship with the Controlling Shareholders" in this prospectus.

SUMMARY

PROMINENT RISK FACTORS

There are certain risks relating to investment in the Offer Shares. Some of the particular risks in investing in the Offer Shares are further described in the section headed “Risk factors” in this prospectus. You should read that section carefully before you decide to invest in the Offer Shares. The Group believes some of the significant risk factors that are specific to its operations include: (i) price fluctuation of jewellery raw materials of the Group’s jewellery products could materially and adversely affect its business; (ii) the Group may not be able to renew the leases of its retail stores which may affect its business and operation when the relevant leases expire or terminate; (iii) the Group may not be able to sustain its profitability; (iv) the Group has high gearing ratio that may expose it to liquidity risk; (v) the Group may fail to effectively respond to the changing market trends and to meet customer expectations; and (vi) challenges or continued downturn in economic conditions may affect the demand for the products which could adversely affect its sales or growth.

LISTING EXPENSES

For the years ended 31 March 2017 and 2018, the Group incurred Listing expenses of nil and approximately HK\$8.2 million, respectively. Based on the mid-point of indicative Offer Price range, the Group expects to incur total Listing expenses (including underwriting fees and commissions) of approximately HK\$23.0 million of which the Group (i) has recognised nil and approximately HK\$8.2 million in the profit or loss for the years ended 31 March 2017 and 2018, respectively; (ii) expects to recognise an additional amount of approximately HK\$6.7 million in the profit or loss for the year ending 31 March 2019; and (iii) expects to recognise approximately HK\$8.2 million as a deduction in equity directly for the year ending 31 March 2019.

For the year ending 31 March 2019, due to the potential increase in our staff costs, rental and depreciation charges, a decline in the Group’s adjusted net profit (excluding Listing expenses) is expected. Prospective investors should note that the Group’s financial performance for the year ending 31 March 2019 is expected to be adversely affected by the estimated non-recurring Listing expenses mentioned above and may or may not be comparable to its financial performance in the past.

REASONS FOR THE SHARE OFFER

The Directors believe that the Share Offer will enhance the Group’s profile, strengthen its financial position and competitiveness and provide the Group with additional capital to implement its future plans. For further details, please refer to the section headed “Future plans and use of proceeds — Reasons for the Share Offer” in this prospectus.

OFFER STATISTICS

The statistics in the following table are based on the assumptions that: (i) the Share Offer is completed and 187,500,000 Shares are issued and sold in the Share Offer; (ii) it does not take into account any Shares which may be issued upon exercise of any options which may be granted under the Share Option Scheme; and (iii) 750,000,000 Shares are issued and outstanding upon completion of the Share Offer.

	Based on an Offer Price of HK\$0.30 per Offer Share	Based on an Offer Price of HK\$0.34 per Offer Share
Market capitalisation of the Shares	HK\$225.0 million	HK\$255.0 million
Unaudited pro forma adjusted consolidated net tangible asset value per Share ^{(1) (2) (3)}	HK cents 0.13	HK cents 0.14

SUMMARY

Notes:

1. The unaudited pro forma adjusted consolidated net tangible asset value per Share is calculated after making the adjustments referred to in “Appendix II — Unaudited pro forma financial information” to this prospectus.
2. The unaudited pro forma adjusted combined net tangible assets of the Group attributable to owners of the Company as at 31 March 2018 per Share has been arrived at on the basis of a total of 741,065,351 Shares are in issue assuming that the Share Offer and the Capitalisation Issue have been completed on 31 March 2018. It does not take into account of any Shares which may be issued upon exercise of options which may be granted under the Share Option Scheme or any Shares which may be issued or repurchased by the Company pursuant to the Company’s general mandates.
3. The unaudited pro forma adjusted combined net tangible assets of the Company does not take into account of a special dividend of HK\$9 million declared on 3 April 2018 by the group entities. Such dividend is expected to be paid to one of the Company’s Shareholders before the Listing. Had the dividend been taken into account, the unaudited pro forma adjusted combined net tangible assets per Share would be HK\$0.12 (assuming an Offer Price of HK\$0.30 per Share) and HK\$0.12 (assuming an Offer Price of HK\$0.34 per Share), respectively.
4. Except for the above, no adjustment has been made to the unaudited pro forma statement of adjusted combined net tangible assets of the Group attributable to the owner of the Company to reflect any trading result or other transactions of the Group entered into subsequent to 31 March 2018.

FUTURE PLANS AND USE OF PROCEEDS

Assuming an Offer Price of HK\$0.32 (being the mid-point of the Offer Price range), the Company estimates that it will receive net proceeds from the Share Offer (after deduction of estimated total Listing expenses paid or payable by it) of approximately HK\$37.0 million. The Company intends to use the net proceeds to achieve its business objectives as follows:

Net proceeds used

(Approximate amount and %)	Objectives	Activities
HK\$27.0 million or 73.0%	Expand the Group’s retail presence	<ul style="list-style-type: none">• Open one retail store in Mongkok or Tsim Sha Tsui• Recruitment of new sales staff
HK\$6.3 million or 17.0%	Enhance the Group’s brand recognition	<ul style="list-style-type: none">• Launching various marketing and promotional activities• Refurnishing existing retail stores
HK\$3.7 million or 10.0%	Working capital and other general corporate purposes	<ul style="list-style-type: none">• Strengthen its production and design capabilities

For details of the Group’s future plans, use of proceeds and the implementation plans, please refer to the section headed “Future plans and use of proceeds” in this prospectus.

DIVIDENDS

During the year ended 31 March 2018, CFJ Limited, KJJ Limited and WR Limited declared and paid dividends in an aggregate amount of HK\$7.0 million to their then respective shareholders. On 3 April 2018, KJJ Limited and WR Limited declared a special dividend to Mr. Fu, one of the Controlling

SUMMARY

Shareholders, in the aggregate amount of HK\$9.0 million, which will be settled with the Group's internal resources before the Listing. Save for the above, no other dividends have been paid or declared by the companies now comprising the Group to their then respective shareholders during the Track Record Period and up to the Latest Practicable Date.

The Company does not have a dividend policy or any pre-determined dividend distribution ratio. The declaration, payment and amount of dividends will be at the discretion of the Directors, subject to approval by the Shareholders, and will be dependent upon the Group's earnings, financial conditions, cash requirements and availability, future prospects, contractual restrictions, applicable laws and provisions and other relevant factors.

RECENT DEVELOPMENT AND MATERIAL ADVERSE CHANGE

The Group has continued to focus on strengthening its market position and business operations in the jewellery industry in Hong Kong.

For the four months ended 31 July 2018, the revenue increased slightly by approximately HK\$2.7 million compared to the revenue in the same period in 2017 and the gross profit margin for the four months ended 31 July 2018 was relatively stable to that during the same period in 2017.

Due to inherent uncertainties in the Hong Kong economy in the coming year, particularly in relation to increased competition in the retail jewellery market, the Company may record a decline in its revenue and also due to a potential increase in its staff costs, rental and depreciation charges as a result of the proposed opening of a new retail and flagship store which is contingent on the Listing, its adjusted net profit (excluding listing expenses) for the year ending 31 March 2019 may decline compared to the same for the year ended 31 March 2018. Furthermore, as a result of the Listing expenses, the Company's net profit for the year ending 31 March 2019 will be adversely affected.

Save for the above and the Listing expenses incurred as disclosed in the section headed "Financial information — Listing expenses" in this prospectus, the Directors confirm that, up to the date of this prospectus, there had been no material adverse change in the financial or trading positions or prospect of the Group since 31 March 2018, being the date to which the latest audited financial statements of the Group were made up, and there had been no event since 31 March 2018 which would materially affect the information shown in the Accountants' Report set out in Appendix I to this prospectus.

NON-COMPLIANCE

The Group had a non-compliance incident involving the filing of tax returns (the "**Tax Incident**") which is summarised as follows: -

- In FY2011, a field audit was conducted by the IRD on certain businesses of the Group and its related companies. The IRD's major findings of the field audit related to the fluctuating gross profit margin of such companies.
- From FY2011 to FY2017, the IRD issued to the CFH Limited, CFJ Limited, KJJ Limited, WR Limited and CFJM Limited (each a "**Targeted Company**" and collectively referred to as the "**Targeted Companies**") additional profits tax assessments in an aggregate amount of HK\$10,216,000 relating to the years assessment 2004/05 to 2010/11, that is, FY2005 to FY2011. The Targeted Companies lodged objections with the IRD against these additional assessments. By notices from FY2012 to FY2017, the IRD agreed to hold over unconditionally an amount of approximately HK\$10,000,000 in response to the objections lodged by the Targeted Companies.

SUMMARY

- Considering that it was a controversial issue as to what gross profit margin would be considered as reasonable and in order to avoid a further protracted exchange of correspondences, the Group decided to negotiate with the IRD a compromise settlement in November 2017. This resulted in a total amount of additional tax payable of HK\$3,618,100 for the years of assessment 2004/05 to 2015/16. In addition to the additional tax charged, the Group offered to pay an aggregate amount of compound penalty of HK\$5,415,000. Upon settlement of the case, holdover interest of HK\$252,490 was charged to the Group.
- As at the date of this prospectus, the Group had paid and settled the aggregate sum of HK\$9,285,590 in additional tax payable, compound penalty and holdover interest.
- Given that: (i) the reasonableness of the level of gross profit is subjective and controversial; (ii) the Group has reached settlement with the IRD; and (iii) such non-compliance incident did not involve any dishonesty or fraud on the part of the Directors or senior management, the Directors are of the view, and the Sole Sponsor concurs, that the Group's enhanced internal control and corporate governance measures in place are adequate and effective, and such non-compliance incident should not affect the Directors' suitability under Rules 5.01 and 5.02 of the GEM Listing Rules or impugn on their integrity or competence.
- The Targeted Companies were subject to penalty loadings from the IRD ranging between 107% and 127% of the tax undercharged. Based on the practical experience of a reputable international accounting firm engaged by the Group, the normal range of the penalty loading for field audit cases that are not settled within three months have penalty loading (including commercial restitution) between 110% to 150% of the tax undercharged. Accordingly, as the penalty loadings of the Targeted Companies are within this range, as advised by the Tax Representative, the Directors are of the view that the Tax Incident is not a serious offence.
- The penalty also includes HK\$280,000 for the Group's failure to keep business records under Section 51C of the Inland Revenue Ordinance. As advised by the Tax Representative, the Directors are of the view that it is the normal practice for the IRD to impose a penalty relating to Section 51C of the Inland Revenue Ordinance in field audit cases. The penalty imposed in this regard may not be reflective of taxpayer's actual record keeping, particularly because the IRD generally applies a very high level of requirement on records and documents keeping during field audit exercise. The penalty represented approximately HK\$10,000 per relevant Targeted Company for each year of assessment. The maximum fine concerning Section 51C is approximately HK\$2.3 million, being HK\$100,000 per relevant Targeted Company for each year of assessment. Accordingly, the penalty of HK\$280,000, being 10% of the maximum penalty, reflects that the extent of the offence is not on the serious side.

For further details of the tax incident, please refer to the section headed "Business — Tax incident" in this prospectus.

Save for the tax incident as abovementioned, the Directors are not aware of any material non-compliance of the Group under applicable laws and regulations during the Track Record Period and up to the Latest Practicable Date. The Directors are of the view that such incidents of non-compliance, whether individually or collectively, have not caused and will not have a material adverse effect on the Group's business, results of operations and financial condition.

DEFINITIONS

In this prospectus, unless the context otherwise requires, the following terms shall have the meanings set out below. Certain technical terms are explained in the section headed “Glossary of technical terms” in this prospectus.

“Accountants’ Report”	the accountants’ report of the Group for the years ended 31 March 2017 and 2018 received from the Company’s reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, and set out in Appendix I to this prospectus
“Application Form(s)”	WHITE, YELLOW and GREEN application form(s), or where the context so requires, any one or both of them, relating to the Public Offer
“Articles of Association” or “Articles”	the articles of association of the Company conditionally adopted on 26 September 2018 (with effect from the Listing Date) and as amended, supplemented and otherwise modified from time to time, a summary of which is set out in Appendix III to this prospectus
“Board” or “Board of Directors”	the Company’s board of Directors
“business day(s)”	any day on which licensed banks in Hong Kong are generally open for business to the public and which is not a Saturday, Sunday or public holiday in Hong Kong
“BVI”	the British Virgin Islands
“Capitalisation Issue”	the issue of 562,499,999 Shares to be made upon capitalisation of certain sums standing to the credit of the share premium account of the Company referred to in the section headed “A. Further information about the Group — 5. Written resolutions of the sole Shareholder passed on 26 September 2018” in Appendix IV to this prospectus
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation

DEFINITIONS

“CCASS Participant”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
“CEO”	chief executive officer of the Company, Mr. Fu
“CFH Limited”	Chong Fai Group Holdings Company Limited (創輝集團控股有限公司), a limited liability company incorporated in Hong Kong on 7 January 2000 which is wholly-owned by GH Limited and a member of the Group
“CFJ Limited”	Chong Fai Jewellery & Gold Company Limited (創輝珠寶金行有限公司), a limited liability company incorporated in Hong Kong on 14 March 1997 which is owned by GH Limited and Mr. Chu Yau Tak in the proportion of approximately 99.999% and 0.001%, respectively, and is a member of the Group
“CFJM Limited”	Chuk Fung Jewellery Manufactory Limited (卓豐珠寶首飾廠有限公司), a limited liability company incorporated in Hong Kong on 7 November 2003 which is wholly-owned by GH Limited, and is a member of the Group
“Chairman”	chairman of the Board, Mr. Fu
“China” or “PRC”	the People’s Republic of China excluding, for the purpose of this prospectus, Hong Kong, Macau and Taiwan
“Companies Law” or “Cayman Companies Law”	the Companies Law (2018 Revision) of the Cayman Islands, as amended, supplemented or otherwise modified from time to time
“Companies Ordinance”	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”	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”, “the Company”, “we”, “us” or “our”	Dominate Group Holdings Company Limited, a company incorporated on 11 January 2018 under the laws of the Cayman Islands as an exempted company with limited liability, and, except where the context otherwise requires, all of its subsidiaries or where the context refers to any time prior to its incorporation, the business which its predecessors or the predecessors of its present subsidiaries were engaged in and which was subsequently assumed by it

DEFINITIONS

“Controlling Shareholder(s)”	has the meaning ascribed to it under the GEM Listing Rules and, for the purpose of this prospectus unless the context requires otherwise, means the controlling shareholders of the Company, namely Mr. Fu, Ms. Cheung, Ms. Fu and MGH Limited
“Deed of Indemnity”	deed of indemnity dated 26 September 2018 and executed by the Controlling Shareholders in favour of the Company (for itself and as trustee for its subsidiaries as stated therein), details of which are set out in the section headed “F. Other information — 2. Tax indemnity, other indemnity and estate duty” in Appendix IV to this prospectus
“Deed of Non-Competition”	deed of non-competition dated 26 September 2018 and executed by the Controlling Shareholders in favour of the Company (for itself and for the benefit of each of the members of the Group), details of which are set out in the section headed “Relationship with the Controlling Shareholders — Deed of Non-Competition” in this prospectus
“DGH Limited”	Depasser Group Holdings Company Limited, a company incorporated in the BVI on 6 February 2018 with limited liability, which is wholly owned by the Company, and is a member of the Group
“Dia Myth”	Dia Myth Jewelry (MFY) Co., Limited (卓薈珠寶有限公司), a limited liability company incorporated in Hong Kong on 22 November 2006 which is owned by Mr. Fu and Ms. Fu in the proportion of 96.02% and 3.98%, respectively
“Director(s)”	the director(s) of the Company
“EIT”	the enterprise income tax charged by the PRC
“Frost & Sullivan”	Frost & Sullivan Limited, an Independent Third Party, being a consulting firm that provides market research and analysis
“Frost & Sullivan Report”	a commissioned industry report prepared by Frost & Sullivan in relation to a study of jewellery market in Hong Kong, the content of which is quoted in this prospectus
“FY”	for the financial year ended or ending 31 March
“GAAP”	generally accepted accounting principles
“GEM”	the GEM of the Stock Exchange

DEFINITIONS

“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM, as amended, supplemented or otherwise modified from time to time
“GH Limited”	Glorieux Group Holdings Company Limited, a company incorporated in the BVI on 6 February 2018 with limited liability, which is wholly owned by the Company and is a member of the Group
“GREEN Application Form(s)”	the Application Form(s) to be completed by the HK eIPO White Form Service Provider
“Group”, “the Group”, “we” or “us”	the Company and its subsidiaries at the relevant time or, where the context otherwise requires, in respect of the period prior to the Company becoming the holding company of the present subsidiaries, the companies that are the present subsidiaries of the Company and/or their predecessors (as the case may be)
“HK eIPO White Form Service”	the application of Public Offer Shares to be issued in the applicant’s own name by submitting applications online through the designated website at www.hkeipo.hk
“HK eIPO White Form Service Provider”	the HK eIPO White Form service provider designated by the Company, as specified on the designated website at www.hkeipo.hk
“HKAS(s)”	Hong Kong Accounting Standard(s)
“HKFRS(s)”	Hong Kong Financial Reporting Standard(s) (including HKASs and Interpretations) issued by HKICPA
“HKICPA”	Hong Kong Institute of Certified Public Accountants
“HKSCC”	Hong Kong Securities Clearing Company Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly owned subsidiary of HKSCC
“HK\$”, “HKD”, “Hong Kong dollar(s)” and “cents”	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
“Hong Kong”, “HKSAR” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Branch Share Registrar”	Tricor Investor Services Limited

DEFINITIONS

“Independent Third Party(ies)”	an individual(s) or a company(ies) who or which is/are not connected person(s) (within the meaning of the GEM Listing Rules) of the Company
“Inland Revenue Ordinance”	the Inland Revenue Ordinance (Chapter 112 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“IRD”	the Inland Revenue Department of Hong Kong
“Jinsen Factory”	Shenzhen Jinsen Zhuofeng Jewellery Processing with Supplied Materials Factory (深圳金森卓豐珠寶首飾來料加工廠)
“Joint Bookrunners” or “Joint Lead Managers”	South China Securities Limited and Ping An Securities Limited
“KJJ Limited”	King Jewellery & J Company Limited (皇室珠寶玉器有限公司), a limited liability company incorporated in Hong Kong on 28 May 2012 which is wholly owned by DGH Limited, and is a member of the Group
“Latest Practicable Date”	19 September 2018, being the latest practicable date for the purpose of ascertaining certain information in this prospectus prior to its publication
“Listing”	listing of the Shares on GEM
“Listing Date”	the date, expected to be on or about Friday, 12 October 2018, on which dealings in the Shares first commence on GEM
“Listing Department”	the listing department of the Stock Exchange
“Macau”	Macao Special Administrative Region of the PRC
“Memorandum of Association” or “Memorandum”	the memorandum of association of the Company conditionally adopted on 26 September 2018 (with effect from the Listing Date), a summary of which is set out in Appendix III to this prospectus
“MGH Limited”	Mythe Group Holdings Company Limited, a company incorporated in the BVI on 10 January 2018 with limited liability, which is owned by Mr. Fu, Ms. Fu and Ms. Cheung in the proportion of approximately 99.29%, 0.48% and 0.23%, respectively, and is one of the Controlling Shareholders
“Mr. Chan”	Mr. Chan Cheong Tat (陳昌達), independent non-executive Director

DEFINITIONS

“Mr. Fu”	Mr. Fu Chun Keung (傅鎮強), Chairman, CEO and executive Director of the Company. He is one of the Controlling Shareholders. He is also the spouse of Ms. Cheung and younger brother of Ms. Fu
“Mr. Tony Chan”	Mr. Chan Chi Ming Tony (陳子明), independent non-executive Director
“Mr. Wong”	Mr. Wong Wing Keung Meyrick (王泳強), independent non-executive Director
“Mr. Yung”	Mr. Yung Kam Keung (翁錦強), head of the wholesale and retail department of the Group
“Ms. Chan”	Ms. Chan So Kuen (陳素娟), the account manager of the Group
“Ms. Cheung”	Ms. Cheung Lai Yuk (張麗玉), executive Director. She is one of the Controlling Shareholders. She is also the spouse of Mr. Fu and sister-in-law of Ms. Fu
“Ms. Fu”	Ms. Fu Wan Ling (傅雲玲), executive Director. She is one of the Controlling Shareholders. She is also the elder sister of Mr. Fu and sister-in-law of Ms. Cheung
“Ms. So”	Ms. So Shuk Yi Betty (蘇淑儀), the Company secretary of the company
“Offer Price”	the final offer price per Offer Share (excluding brokerage fee, SFC transaction levy and Stock Exchange trading fee) which will not be more than HK\$0.34 per Offer Share and is expected to be not less than HK\$0.30 per Offer Share, such price to be determined in the manner as further described in the section headed “Structure and conditions of the Share Offer” in this prospectus
“Offer Share(s)”	the Placing Shares and the Public Offer Shares
“Official Receiver”	has the meaning ascribed thereto under the Bankruptcy Ordinance (Chapter 6 of the laws of Hong Kong)
“Ping An Securities Limited”	Ping An Securities Limited, a licensed corporation under the SFO permitted to engage in type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities (as defined under the SFO), being the Joint Bookrunners and Joint Lead Managers of the Share Offer

DEFINITIONS

“Placing”	the conditional placing of the Placing Shares by the Placing Underwriters on behalf of the Company at the Offer Price, as further described in the section headed “Structure and conditions of the Share Offer” in this prospectus
“Placing Shares”	the initial 168,750,000 new Shares, being offered by the Company for subscription or purchase under the Placing (subject to re-allocation as further described in the section headed “Structure and conditions of the Share Offer” in this prospectus)
“Placing Underwriter(s)”	the underwriter(s) of the Placing Shares, who are expected to enter into the Placing Underwriting Agreement to underwrite the Placing Shares
“Placing Underwriting Agreement”	the placing agreement relating to the Placing and to be entered into between, amongst others, the Company, the Controlling Shareholders, the Sole Sponsor, the Joint Lead Managers and the Underwriters on or about the Price Determination Date
“Predecessor Companies Ordinance”	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) as in force from time to time before 3 March 2014
“Price Determination Agreement”	the agreement to be entered into by the Joint Lead Managers (for themselves and on behalf of the Underwriters) and the Company on the Price Determination Date to record and fix the Placing Price
“Price Determination Date”	the date on which the Offer Price is expected to be fixed, which is expected to be on or around Friday, 5 October 2018, and in any event no later than Saturday, 6 October 2016
“prospectus”	this prospectus being issued in connection with the Share Offer
“Public Offer”	the offer to the public in Hong Kong for subscription of the Public Offer Shares at the Offer Price, on and subject to the terms and conditions stated in this prospectus and on the Application Forms
“Public Offer Shares”	the 18,750,000 Shares initially being offered by the Company for subscription at the Offer Price under the Public Offer (subject to re-allocation as described in the section headed “Structure and conditions of the Share Offer” in this prospectus)

DEFINITIONS

“Public Offer Underwriter(s)”	the underwriters of the Public Offer listed under the section headed “Underwriting — Public Offer Underwriters” in this prospectus
“Public Offer Underwriting Agreement”	the underwriting agreement dated 28 September 2018 relating to the Public Offer entered into between, amongst others, the Company, the Controlling Shareholders, the Sole Sponsor, the Joint Lead Managers and the Public Offer Underwriters
“Regulation S”	Regulation S under the U.S. Securities Act
“Reorganisation”	the corporate reorganisation of the Group conducted in preparation for the Listing, details of which are set out in the section headed “History, development and Reorganisation” in this prospectus
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Share(s)”	ordinary share(s) with a nominal value of HK\$0.01 each in the share capital of the Company, which are to be traded in Hong Kong dollars and listed on GEM
“Share Offer”	the Placing and the Public Offer
“Share Option Scheme”	the share option scheme conditionally adopted by the Company on 26 September 2018, the principal terms of which are summarised in the section headed “F. Other information — 1. Share Option Scheme” in Appendix IV to this prospectus
“Shareholder(s)”	the holder(s) of the Share(s)
“South China” or “Sole Sponsor”	South China Capital Limited, a licensed corporation under the SFO to engage in type 6 (advising on corporate finance) regulated activities (as defined under the SFO), being the sole sponsor of the Share Offer
“South China Securities Limited”	South China Securities Limited, a licensed corporation under the SFO to engage in type 1 (dealing in securities) Regulated activities (as defined under the SFO), being the Joint Bookrunners and Joint Lead Managers of the Share Offer
“sq. ft.”	square feet

DEFINITIONS

“State Council”	the State Council of the PRC (中華人民共和國國務院)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Takeovers Code”	The Codes on Takeovers and Mergers and Share Buy-backs as approved by the SFC and as amended, supplemented or otherwise modified from time to time
“Track Record Period”	period comprising the financial years ended 31 March 2017 and 2018
“Trade Descriptions Ordinance”	the Trade Descriptions Ordinance (Chapter 362 of the Laws of Hong Kong), as amended, supplemented or otherwise modified, from time to time
“Underwriters”	the Placing Underwriters and the Public Offer Underwriters
“Underwriting Agreements”	collectively the Public Offer Underwriting Agreement and the Placing Underwriting Agreement
“U.S.”, “US” or the “United States”	the United States of America
“US\$”, “USD” or “U.S. Dollar(s)”	United States dollars, the lawful currency of the United States
“U.S. Securities Act”	the United States Securities Act of 1933 (as amended from time to time)
“ WHITE Application Form(s)”	the application form(s) to be completed in accordance with the instructions in the section headed “How to apply for Public Offer Shares — 3. Applying for the Public Offer Shares” in this prospectus
“ YELLOW Application Form(s)”	the application form(s) to be completed in accordance with the instructions in the section headed “How to apply for Public Offer Shares — 3. Applying for the Public Offer Shares” in this prospectus
“WR Limited”	means W-Rich Company Limited (智達行有限公司), a limited liability company incorporated in Hong Kong on 29 November 2011 which is wholly owned by DGH Limited, and is a member of the Group
“ZDHJ Limited”	Zhidahang Jewellery (Shenzhen) Company Limited* (智達行珠寶(深圳)有限公司), a limited liability company incorporated in the PRC on 29 May 2015, a wholly owned subsidiary of KJJ Limited. As at the Latest Practicable Date, it was in the process of deregistration

DEFINITIONS

“ZHJ Limited”	Zhuohui Jewellery (Shenzhen) Company Limited* (卓薈珠寶(深圳)有限公司), a limited liability company incorporated in the PRC on 18 November 2011, a wholly owned subsidiary of CFJM Limited, and is a member of the Group
“%”	per cent.

In this prospectus, the terms “associate(s)”, “close associate(s)”, “connected”, “connected person(s)”, “connected transaction(s)”, “core connected person(s)”, “controlling shareholder(s)”, “subsidiary(ies)” and “substantial shareholder(s)” shall have the meanings ascribed thereto under the GEM Listing Rules, unless the context otherwise requires.

Words imply the singular include, where applicable, the plural and vice versa. Words imply the masculine gender include, where applicable, the feminine and neuter gender.

No information contained in the Company’s website forms part of this prospectus.

All dates and times in this prospectus refer to Hong Kong time unless otherwise stated.

The English names of the PRC entities, laws and regulations or government authorities mentioned in this prospectus, and marked with “” are translation or transliteration from their Chinese name and are for identification purposes only. If there is any inconsistency, the Chinese names shall prevail.*

GLOSSARY OF TECHNICAL TERMS

This glossary contains explanations of certain terms used in this prospectus in connection with the Company and its business. These terminologies and their given meanings may not correspond to those standard meanings and usage adopted in the industry.

“CAGR”	compound annual growth rate
“carat”	a unit of weight for diamonds, each of which is equal to 200 milligrams
“GDP”	gross domestic product
“GIA”	Gemological Institute of America
“gemstones”	natural mineral crystals and stones that can be cut and polished to make jewellery. Examples of gemstones include amethyst, emerald, jadeite, opal, pearl, quartz ruby, sapphire and topaz
“gem-set jewellery products”	includes diamond/gemstones-set jewellery in addition to platinum and karat gold jewellery
“karat”	a unit of measure for the fineness of gold
“karat gold”	jewellery products made from gold alloy
“mass luxury jewellery”	jewellery products with a retail price ranging from HK\$2,000 to HK\$100,000 per piece
“ounce” or “oz”	a unit of weight for gold, each of which is equal to approximately 28 grams
“precious metals”	metals valued for their colour, malleability, and rarity, with a high economic value driven not only by their practical industrial use, but also as investments. The widely-traded precious metals are gold, silver, platinum and palladium
“pure gold products ”	gold products (excluding karat gold jewellery) such as 999.9 pure gold jewellery
“recycled gold products”	used gold jewellery products purchased from the general public for resale to recycled gold product collector dealers

FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements that are, by their nature, subject to significant risks and uncertainties. These forward-looking statements include, without limitation, statements relating to:

- business strategies and plans of operation;
- capital expenditure plans;
- the amount and nature of, and potential for, future development of the business;
- operations and business prospects;
- dividend policy;
- projects under construction or planning;
- strategies, plans, objectives and goals;
- the regulatory environment of the industry in which the Group is operating;
- future developments, trends and conditions in the industry in which the Group is operating;
- capital market developments;
- actions and developments of competitors of the Group; and
- other statements in this prospectus that are not historical facts.

The words “anticipate”, “believe”, “could”, “expect”, “intend”, “may”, “plan”, “seek”, “will”, “would” and similar expressions, as they relate to the Group, are intended to identify a number of these forward-looking statements. These forward-looking statements reflecting the Company’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. One or more of these risks or uncertainties may materialise, or underlying assumptions may prove incorrect.

Subject to the requirements of the GEM Listing Rules, the Group do not intend to publicly update or otherwise revise the forward-looking statements in this 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 the Group expects, or at all. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements in this prospectus are qualified by reference to this cautionary statement.

RISK FACTORS

Investment in the Shares involves various risks. You should consider carefully all the information set out in this prospectus and, in particular, the risks and uncertainties described below before making an investment in the Shares. The Group's business, financial condition and operations could be materially and adversely affected by any of the risks described below. If any of these events occur, the trading price of the Shares could decline and you may lose all or part of your investment. Additional risks and uncertainties not presently known to the Company or which the Company currently deems immaterial may arise or become material in the future and may have a material adverse effect on the Group.

RISKS RELATING TO THE GROUP'S BUSINESS

Price fluctuation of jewellery raw materials of the Group's jewellery products could materially and adversely affect its business

The Group purchases jewellery raw materials including diamonds, other gemstones and precious metals. For the years ended 31 March 2017 and 2018, the Group's cost of inventories of gem-set jewellery products amounted to approximately 57.7% and 52.2% of its total cost of sales, respectively; the Group's cost of inventories of pure gold products amounted to approximately 31.1% and 33.1% of its total cost of sales, respectively; and the Group's total cost of inventories of recycled gold products amounted to approximately 7.5% and 11.5% of its total cost of sales of jewellery business, respectively.

According to the Frost & Sullivan Report, the yearly average price of gold in global market varied from HK\$12,946 per oz. in 2012 to HK\$8,993 per oz. in 2015, and then recovered gradually to HK\$9,709 per oz. in 2016. In the next few years, gold price is projected to remain steady and range between HK\$10,000 per oz. and HK\$11,000 per oz. in 2021. Additionally, the global polished diamonds price index declined from 155.2 in January 2012 to 116.0 in the end of 2017. The Group did not conduct hedging activities (including purchasing derivatives, such as gold or other commodities forward contracts) in relation to the price fluctuations of the relevant major jewellery raw materials during the Track Record Period to manage the risk of price fluctuations. If the prices of the relevant major raw materials of jewellery product fluctuate significantly in the future, the Group's operations and financial results may be adversely affected. For information of how the Group indirectly manages its exposure to fluctuations in gold prices by taking out gold loans, please see the section headed "Financial Information — Gold loans" in this prospectus. Please also refer to the sensitivity analysis, under the section headed "Key factors affecting the results of operations and financial condition of the Group — Sensitivity analysis of cost items" in this prospectus for the impact of gold price fluctuation on the Group's profitability.

The Group also purchases recycled gold products from the general public and sell to customers such as Customer A on a regular basis. If the price of gold fluctuates significantly between the time of purchase and sale of recycled gold products by the Group, the Group's revenue from such operations may also be adversely affected.

The Group may not be able to renew the leases of its retail stores which may affect its business and operation when the relevant leases expire or terminate

As at the Latest Practicable Date, the Group leased seven retail stores. Save for the lease of the retail stores at Mongkok and Shatin, and one of the two retail stores at Kowloon Bay, none of the leases of the Group's retail stores will be expiring within six months from the Latest Practicable Date.

RISK FACTORS

According to the Frost and Sullivan Report, the average rent of private retail in Hong Kong Island is forecast to reach HK\$1,600 per square metre per month in 2022 from HK\$1,493 per square metre per month in 2016, while the rents in Kowloon and New Territories are expected to reach HK\$1,500 per square metre per month in 2022 from HK\$1,333 per square metre per month and HK\$1,293 per square metre per month respectively in 2016.

The Group cannot guarantee its leases will be renewed in accordance with the existing terms, such as without increase in rent, or other terms which are acceptable to the Group. Upon the expiration or termination of its leases, if the Group cannot renew the leases on the same or more favourable terms, its business, financial conditions and operation may be adversely affected.

The Group may not be able to sustain its profitability

For the years ended 31 March 2017 and 2018, the Group's total revenue amounted to approximately HK\$203.5 million and HK\$173.0 million, respectively. The Group's revenue decreased by approximately 15.0% for the year ended 31 March 2018 as compared with the previous period. However, during the same period for the years ended 31 March 2017 and 2018, the Group's total gross profit amounted to approximately HK\$53.8 million and HK\$57.4 million, respectively, representing a growth of approximately 6.7% for the year ended 31 March 2018 as compared with the same period in 2017. During the Track Record Period, the Group's net profit for the year amounted to approximately HK\$3.9 million and HK\$4.8 million, respectively, representing a growth of approximately 24.8% for the year ended 31 March 2018 as compared with the same period in 2017. Although the Group achieved a growth of total gross profit and net profit for the year ended 31 March 2018 as compared to the same period in 2017, it may not be able to sustain such growth rates in subsequent years. Moreover, purchases of the Group's wholesale customers were generally made on order-by-order basis without any long-term commitment to repeat purchases. There is no assurance the amount of sales revenue can be maintained. The Group may, due to unforeseen factors or the risks as disclosed in this section of this prospectus, as well as the incurring of considerable amount of Listing expenses during the year ended 31 March 2018 and the year ending 31 March 2019, experience stagnant or negative growth on its revenue and profitability.

During the years ended 31 March 2017 and 2018, the Group's overall gross profit margin was approximately 26.5% and 33.2%, respectively, while the Group's net profit margin was approximately 1.9% and 2.8%, respectively. The Group's overall gross profit margin is subject to the proportion of sales of different types of products which entail different gross profit margins, and may significantly affect the net profit margin. The Directors consider that the Group's overall gross profit margin is also subject to the proportion of sales through different types of sales channels, i.e. retail and wholesale channels. There is no assurance that the Group will be able to maintain the current gross profit margin and net profit margin in the future if the operating costs continue to increase as a result of, among other factors, rising costs of raw materials purchased, labour and rent. Furthermore, the Group cannot guarantee its ability to maintain the current product mix or percentage of sales through retail and wholesale channels and sustain the growth in sales of products that entail higher gross profit margins, hence any changes in the product mix or percentage of sales through retail and wholesale channels in the future may adversely affect the Group's profitability.

RISK FACTORS

The Group has high gearing ratio that may expose it to liquidity risk

The Group's business operation relies on cash generated from its business operations and bank borrowings and the Group expect this will be the case in the future. The Group's gearing ratio was approximately 75.8% and 92.4% as at 31 March 2017 and 31 March 2018, respectively. The Group's high level of bank borrowings and gearing ratio may adversely affect its liquidity and business operations, including but not limited to:

- increase vulnerability under adverse economic condition;
- potentially limit ability to raise more debt; and
- increase exposure to interest rate fluctuation.

If the Group continues to have a high gearing ratio, the Group's exposure to liquidity risk may restrict its ability to make necessary capital expenditure or develop business opportunities in the future, which may adversely affect the Group's results of operations and financial positions.

The Group may fail to effectively respond to the changing market trends and to meet customer expectations

The Directors consider that the success of the Group's future business is dependent on its ability to offer jewellery products based on the changing market trends, expectations and other preferences of its existing and potential new customers. Although the Group imposes quality control of its jewellery products, conducts market researches and reviews its business plan and strategies periodically, it could not guarantee that it is able to anticipate and identify new market trends, change in purchase behavior or customer expectations and respond to such in an effective manner.

If the Group is unable to effectively respond to the changes in market trend and customer expectations, its business, financial conditions and operations may be adversely affected.

Challenges or continued downturn in economic conditions may affect the demand for the products which could adversely affect the Group's sales or growth

The Group's jewellery products are discretionary products and the demand of which is highly sensitive to the global economic conditions as well as the specific economic conditions in its principal market. If there is any significant economic downturn or recession in the global economy or its target market, the demand for the Group's products may drop significantly. In such event, the Group's business could be adversely affected. An economic downturn or recession in the Group's principal market could adversely affect the purchasing power of its customers and end customers and their demands which could have a material effect on the Group's business, results of operations and financial condition. For instance, Hong Kong, the Group's principal market during the Track Record Period, experienced economic downturn in 2014 to 2016. For details of the adverse effect that it may bring to the Group, please refer to the paragraph headed "Risk factors — Risks relating to Hong Kong — The Group's products are sold primarily in Hong Kong whose sale performance is susceptible to changes in Hong Kong political and economic environment" in this section.

RISK FACTORS

The Company may face competition from online retailers

The Group currently does not have plans to operate its business online. The Group faces competition from online retailers which have advantage in terms of cost, primarily saving on the high rent in Hong Kong and the additional cost of involving specialised staff for on-site sales. Such competition may adversely affect the Group's performance and profitability.

The Group has not entered into any long-term agreement with its customers or suppliers

The Directors consider that as in line with the normal practice in the retail and wholesale jewellery industry, the Group generally does not enter into any long-term agreement with its customers, including wholesale customers (save and except for the purpose of promoting customers' loyalty through its customer reward schemes). The Group has also not entered into long-term agreement with its suppliers, including its five largest suppliers. For further information on the Group's suppliers and customers, please refer to the sections headed "Business — Suppliers" and "Business — Customers" in this prospectus.

There is no assurance that the Group's existing customers would repeat purchases in future, or its existing suppliers (which have no existing long-term contractual relationship with the Group) would continue to supply it with particular raw materials or products with terms as the same or more favourable as those of the transactions during the Track Record Period. Accordingly, any change or fluctuation of the number of customers and suppliers, or the change in the terms of the sales or supply, may result in material adverse impact to the Group's business and financial condition.

The Group may face claims in relation to infringement of intellectual property rights from third parties which may affect its business and reputation and the Group does not own any registered original design of its jewellery products

From time to time, the Group may face claims of product infringement upon the intellectual property rights of third parties, including its competitors. Defending such claims may require significant attention from the management and may be costly. If any legal proceeding against the Group for infringement of intellectual property rights is successful, it may be ordered to be responsible for the losses incurred by the claiming parties due to infringement of their intellectual property rights. Further, if the Group is unable to obtain the right of using such intellectual property rights on acceptable terms or at all or it is unable to design around such intellectual property rights, the Group may be prohibited from manufacturing or selling products which are dependent on the usage of such intellectual property rights. In such cases, the Group may experience a material and adverse effect on its business and reputation, and these types of proceedings and their consequences could divert management's attention from its business, all of which could have a material and adverse effect on its business, financial condition, results of operations and prospects.

The Group does not own any registered original design of its jewellery products and also make requests to its external designers for particular specification of the relevant products, but arguably such requests do not constitute as registrable original design. Subject to the business development and implementation of the future plans of the Group, the Group may register certain original designs if it considers fit. However, it is always possible that other third party may manufacture or sell similar

RISK FACTORS

design of the Group's products and the Group could not guarantee that (i) it could exclusively sell a particular design of jewellery products; nor (ii) it could protect its rights or defend any claims on the infringement of particular designed jewellery products. Such events may adversely affect the Group's performance and profitability.

The Group may suffer from adverse impact to failure to promote and maintain its brand or to protect its intellectual property rights

The Directors consider that the growth in business and operations of the Group continue to rely on, among others, its brand name as one of the key factors for a customer to make purchase decision. While the Group continues to maintain and promote its brand by marketing and ensure effective quality control over its jewellery products, the Group could not guarantee the presentation of its brand and jewellery products would be competitive and popular in the districts and jurisdictions of its business and operation. In the event that the Group could not promote its brand or maintain its goodwill, the Group may not be able to attract existing and new customers to purchase its products.

The Directors also consider that the trademark and logos of the Group are essential to the successful promotion of the Group's brand, business and operations. The Group has registered one trademark in Hong Kong where the Directors consider to be relevant to the operation or business development of the Group. For further information, please refer to the section headed "Statutory and general information — B. Further information about the business — 2. Intellectual property rights of the Group" in Appendix IV to this prospectus. The Group could not guarantee that it is safe from any third parties infringement, dilution or misappropriation of its intellectual property rights.

If the value of the Group's brand or goodwill are undermined or harmed, or if its intellectual property rights are infringed, the Group's business, financial condition and operations may be adversely and materially affected.

The Group's jewellery products, recycled gold, raw materials and business information may be subject to damage or theft, which could have a material and adverse effect on its business, financial condition, operation and brand reputation

The Group's jewellery products, recycled gold and raw materials are required to be transported to and from its retail stores, head office and production facility as part of its daily operation. As the Group's usual practice, its jewellery products, recycled gold and raw materials are stored in its retail stores and head office. The Group's jewellery products, recycled gold and raw materials require special treatment in relation to their transportation and storage. The Group arranges its own transportation of jewellery products, recycled gold and raw materials in its daily operation. The Group's confidential and material business information (such as inventory and transportation records) are stored in its computer system which is only accessible by certain senior management from designated computers in the Group's head office. Please refer to the section headed "Business — Production — Production process — Packaging and delivery" in this prospectus for further details.

Although the Group has implemented internal measures to preserve its business information and to safeguard the transportation and storage of its jewellery products, recycled gold and raw materials,

RISK FACTORS

it could not guarantee that the internal measures are sufficient to prevent damages and/or losses to them due to breach of security system or other criminal activities (such as theft, burglary or robbery). Any such loss and/or damages could adversely affect the Group's business, financial condition, operation and brand reputation.

The Group's business may be affected by the success of the business of its wholesale customers and may be affected by the image and strength of the brands of its wholesale customers

The Group's customers include jewellery wholesalers. The success of the Group's customers' business depends on the changing perceptions of the end customers of the Group's products and could be affected beyond the Group's wholesale customers' control. Therefore there can be no assurance that the Group can maintain or benefit from the success of the business of its wholesale customers. The Group's business could be significantly and adversely affected by any adverse change in the business of its wholesale customers.

As all of the Group's jewellery products sold to wholesalers are, to the best knowledge of the Directors, on sold under its wholesale customers' brand names, the image and strength of these brands are subject to changing consumers' perceptions and could be affected by factors beyond the Group's control. There is no assurance that the Group can maintain or benefit from the image or recognition of the brands of its wholesale customers. The Group's business could be significantly and adversely affected by any adverse change in the brands of its wholesale customers.

The Group's insurance coverage may be insufficient to cover all risks and losses.

During the Track Record Period, the Group has maintained various insurance policies to cover certain types of losses, damages and liabilities, derived from personal accident, property damage, business interruption, loss of money, public liability, employees' compensation, criminal damage, burglary, theft or robbery and loss of property inside the Group's premises. However, there are certain types of insurance policies in relation to (including but not limited to) political risks, trade credit, product warranty, group life and intellectual property, which are not subscribed by the Group. In addition, the limitations and conditions imposed by the insurers could not cover all circumstances of all losses and damages which may be suffered by the Group. Further, amount of coverage under each of the insurance policies may not be sufficient to cover all losses and damages.

The Group is exposed to risks of obsolete and slow-moving inventory which may adversely impact its cash flow and liquidity

The Group's total amount of inventories were approximately HK\$73.2 million and HK\$73.1 million as at 31 March 2017 and 31 March 2018, respectively, and accounted for approximately 50.8% and 53.0% of the Group's total assets, respectively. The demand for the Group's jewellery products is highly dependent on customers' preferences, which are beyond the Group's control. Any increase in inventory level may adversely affect the Group's working capital. If the Group cannot manage its inventory level efficiently in the future, its liquidity and cash flow may be adversely affected. Further,

RISK FACTORS

if the Group fails to design appropriate products to suit customers' preferences in the future, the volume of obsolete and slow-moving inventory may increase and it may need to either sell off such inventory at a lower price or write off such inventory, in the event of which the Group's financial position and results of operations may be materially and adversely affected.

The Group's business and operating results may fluctuate significantly due to seasonality and other factors

The Directors consider that the Group's overall business and operating results may fluctuate significantly from time to time due to seasonal demand and other factors. During the Track Record Period, the Group's retail sales volume generally peaked during the third and fourth quarter of the Group's financial year. Further, other factors affecting the stability of the Group's operating results include the opening of new points of sale of the Group's competitors, additional costs of operation and marketing for the Group's newly opened retail stores. In view of the above factors, the Group's business and operating results may fluctuate significantly from time to time and comparison of operating results of different periods may not be meaningful. The results for a certain financial period of the Group are not necessarily indicative of results to be expected for any other financial period.

The Group is exposed to credit risk of our customers

The Group subject to credit risk of its customers and its profitability and cashflow are dependent on the Group's receipt of timely payments from its customers. If there is any delay in payment by the Group's customers, our profitability, working capital and cash flow may be adversely affected. There is no assurance that we will be able to collect all or any of the Group's trade receivables in a timely manner, or at all. As at 31 March 2017 and 2018, the Group's trade receivables amounted to approximately HK\$20.9 million and HK\$8.1 million, respectively. If any of the Group's customers face unexpected situations, including, but not limited to, financial difficulties, the Group may not be able to receive full or any payment of uncollected sums or enforce any judgment debts against such customers. Non-payment or delays in payment by its customers may materially and adversely affect our business, financial conditions, results of operations and prospects.

The Group's operation depends on certain senior management staff and key employees. The Group's business may be adversely affected if it could not retain such staff members

The Group's operation and business rely on the valuable experience, capabilities and significant full involvement of certain senior management staff and key employees such as Mr. Fu, Ms. Fu and Ms. Cheung. The Group could not guarantee that it could retain, or adequately replace them by hiring new employees in its future development, such as store managers. If the Group's senior management staff and key employees cease to provide service to the Group, it may not be able to achieve its business strategies and future plans and accordingly, the Group's business and operations could suffer a material adverse effect.

The Group's production machinery and technical know-how may become out-of-date which may affect its business, results of operations and profitability

The Group may incur significant costs in adapting to new requirements or specifications from its majors customers due to the requirement of new machineries or know-how. The customers'

RISK FACTORS

requirements, product specifications, market trends and statutory requirements are subject to changes. The Group's competitors may develop production techniques which are superior in terms of costs, time and product quality, which would render its production techniques out-of-date and its business non-competitive. Equipment producers may also develop new production machinery which would render the Group's existing machinery out-of-date. Should any of these factors materialise, the Group's business, results of operations and profitability could be materially and adversely affected.

The Group's marketing activities are essential to maintain and enhance the brand images of the Group's products and the success of the Group's business

The Group's success depends considerably on its ability to develop, maintain and enhance the brand image of the jewellery products sold by the Group. The ability to maintain and enhance the Group's brand recognition and reputation depends primarily on the success of the Group's marketing and promotional efforts. During the Track Record Period, the Group incurred resources into promoting the products by various media advertisements in order to enhance the brand recognition of the Group's products. However, there is no assurance that the Group's marketing and promotional efforts will lead to the expected results. If the Group fails to successfully market and promote its brand, the brand recognition of the products sold by the Group may be adversely affected and there may be a possible decline in demand.

Further, the Group's advertising activities are subject to the relevant laws and regulations of Hong Kong. For instance, the Trade Descriptions Ordinance (Chapter 362 of the Laws of Hong Kong) provides that no person(s) shall publish any advertisements that contain misleading information and/or a false trade description of the goods. If the Group's marketing materials or advertisements contain anything contrary to the relevant laws and regulations, the Group would be liable for breach of the relevant laws and regulations. The Group's reputation would also be adversely affected.

Any illegality of the sources of raw materials, the Group's reputation, business and results of operations may be materially and adversely affected

In case there is any illegality of the sources of raw materials and gold products, the Group's customers may discontinue their businesses with the Group and the Group's reputation, business and results of operations may be materially and adversely affected.

The Group may not be able to implement its future plans after the Listing

The Directors consider that the growth of the Group's business and operation depends on, among other things, the proper execution of its future business plans. Some of the Group's future business plans, as described in the section headed "Future plans and use of proceeds" in this prospectus are still in the preliminary stages of planning and are not yet supported by detailed market and feasibility study. Some assumptions in support of the said future plans are based on uncertain future events which may or may not occur as presumed. The Group could not guarantee the proper implementation of its future plans. Accordingly, the Group's business, profitability, financial condition and operation may suffer material and adverse impact if it could not successfully carry out the said future plans.

RISK FACTORS

Our expansion plan of expanding the Group’s retail presence may adversely affect the Group’s business and operation

In order to implement our plan to expand the Group’s retail presence, the Group plans to use approximately 73.0% of the net proceeds from the Share Offer to open one retail store in Mongkok or Tsim Sha Tsui and to recruit new sales staff. For details, please refer to the sections headed “Business — Business strategies — Expand the Group’s retail presence” and “Future plans and use of proceeds — implementation plans” in this prospectus. As a result, the potential increase in our staff costs and depreciation charges in the future may adversely affect the Group’s business, financial conditions and operations.

The Group relies on external manufacturers for certain of its products

Certain of the Group’s products, such as simple jewellery products, are manufactured by third party suppliers. The Group could not guarantee that (i) the supply of the finished goods are supplied in a timely manner, stable and free from unexpected interruption; (ii) the increase in procurement costs of such finished products following an increase in their production costs for any reason beyond its control; (iii) the qualities of such products could always meet its expectation and satisfy its quality control; (iv) the products manufactured by those external manufacturers are free from any third parties infringement, dilution or misappropriation of any third party’s intellectual property rights; (v) the leakage of the Group’s procurement plans and business strategies by such external manufacturers which took orders from the Group directly or indirectly through the Group’s other suppliers, despite the Group’s great effort to preserve its confidential business information. The occurrence of any of the above events will have adverse impact on the Group’s operation, financial and business conditions.

Any disruption of operation of the Group’s production facilities could materially and adversely affect its business and operation

During the Track Record Period and up to the Latest Practicable Date, the Group manufactured most of its products in its production facilities in Shenzhen, Guangdong Province, the PRC. A number of factors could cause prolonged interruptions or have a negative effect on the operations of the production facilities, whether caused by power or water shortage, labour strikes, riots, fire or any other events that may be beyond the Group’s control or there occurs any change in the relevant PRC laws and regulations which may adversely affect the operations of the Group’s production facilities. There can be no assurance that, if any of the aforesaid events occurs, the Group will be able to find alternative ways to produce its products and to fulfil customers’ orders. If the Group cannot find alternative ways to produce its products at comparable costs and to deliver products timely or at all, the Group’s business and operation and its reputation could be adversely affected.

The Group may be subject to additional tax liabilities, which could have adverse impacts on its financial condition

The Group’s tax filing positions are based on interpretations of applicable tax law in Hong Kong and the PRC as well as underlying rules and regulations of Hong Kong and the PRC with respect to transfer pricing, details of which are set out in the sections headed “Regulatory overview — Regulatory requirements in the PRC — PRC Laws and regulations relating to taxation”, “Regulatory

RISK FACTORS

overview — Regulatory requirements in Hong Kong — Laws and regulations relating to the transfer pricing regulations” and “Business — Transfer pricing arrangement” in this prospectus. Significant judgment and the use of estimates are required in determining the Group’s provisions for taxes. The years of assessment from 2004/05 to 2015/16 of certain businesses of the Group have previously been field audited by the IRD. This resulted in a total amount of additional tax payable of HK\$3,618,100 for the years of assessment 2004/05 to 2015/16. In addition to the additional tax charged, the Group offered to pay an aggregate amount of compound penalty of HK\$5,415,000. Upon settlement of the case, holdover interest of HK\$252,490 was charged to the Group. As at the date of this prospectus, the Group had paid and settled the aggregate sum of HK\$9,285,590 in additional tax payable, compound penalty and holdover interest. For further details, please refer to the section headed “Business — Tax incident” in this prospectus. The years of assessment of the Group for 2016/17 and 2017/18 are open for review by the IRD. If the final determination of the relevant tax authorities in Hong Kong and the PRC with respect to the tax payable by the Group is different from the Group’s historical income tax provisions and accruals due to a change of the applicable tax rates, or modification or a different interpretation of the relevant provisions of the tax treaties or of the laws and regulations relating to transfer pricing, which could have been otherwise favourable to the Group, the Group may face adverse tax consequences. This could have a material effect on the Group’s financial statements in the period or periods for which that determination is made.

RISKS RELATING TO THE INDUSTRY IN WHICH THE GROUP OPERATES

The Group operates in a highly competitive industry and the Group is subject to the risk of losing market share to its competitors (present and future) in the market if the Group could not maintain its competitive advantages

According to the Frost and Sullivan Report, the jewellery retail and wholesale market in Hong Kong was concentrated in the year ended 31 March 2017, with top five players together accounted for approximately 58.2% of the total jewellery retail and wholesale market in Hong Kong in terms of retail and wholesale sales value. As of 31 March 2017, there were over 300 jewellery retailers and wholesalers in the Hong Kong jewellery market according to Hong Kong General Chamber of Jewellery, the majority of which were small and medium local players.

The Group faces keen competition in respect of, *inter alia*, pricing, product quality and brand identification. Some of the Group’s competitors, including those from local and international brands and retailers, may have greater financial, technological, informational and human resources than the Group, which may enable them to provide products superior to or more competitive than the Group’s products, or to adapt more quickly than the Group does to evolving market trends and customers’ preferences. Conversely, some of the Group’s competitors may, out of various commercial considerations, adopt low-margin sales strategies and compete against the Group based on lower prices to increase their market shares. The Group may be forced to lower the prices and profit margins of its products or its market share would drop.

There is no assurance that the Group will be able to compete successfully with its competitors in the future in view of the changing market environment. Further, if the Group could not maintain its competitive advantages, the Group may lose customers and market share. Increasing competition within the industry may have an adverse impact on the Group’s sales volume, market share, profit margin and financial result.

RISK FACTORS

RISKS RELATING TO HONG KONG

The Group's products are sold primarily in Hong Kong whose sales performance is susceptible to changes in Hong Kong political and economic environment

For the Track Record Period, all of the Group's revenue was generated from the Hong Kong market. The Group anticipates that sales in Hong Kong will continue to represent the primary geographical source of its revenue in the future.

However, the profitability of the Group's business is dependent on, *inter alia*, a number of factors relating to the Hong Kong market, such as the purchasing power of the population, the number of and the spending by tourists and other visitors, and legislation, regulations and government policies in relation to the Group's business. Furthermore, economic instability and political turmoil has certain effect on the macroeconomics conditions which would affect the customers' desire to spend.

Hong Kong is a special administrative region of the PRC. It enjoys a high degree of autonomy under the principle of "one country, two systems" in accordance with the Basic Law of Hong Kong. However, the Group is not in any position to guarantee the "one country, two systems" principle and the level of autonomy would be maintained as currently in place. Since the Group's primary operations are substantially located in Hong Kong, any change in Hong Kong's existing political environment may affect the stability of the economy in Hong Kong, thereby affecting the Group's results of operations and financial positions.

In late 2014, thousands of residents of Hong Kong engaged in civil disobedience protests. Activists protested outside key government buildings and occupied several major intersections, causing major disruption to traffic and trade in the affected areas. Any political and social instability in Hong Kong, if significant and prolonged, could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

According to the Frost and Sullivan Report, the total retail sales value in Hong Kong experienced decrease in 2015 and 2016, with growth rates of approximately -3.7% and -8.1%, respectively due to some unexpected political issues and reductions in inbound tourists. Additionally, the total trading value of jewellery retail and wholesale market in Hong Kong has witnessed a decline from approximately HK\$92.0 billion in the year ended 31 March 2015 to approximately HK\$66.0 billion in the year ended 31 March 2017, driven by decreasing inbound tourists, especially from the PRC. Retail is an important sector in the jewellery market in Hong Kong, accounting for approximately 92.0% of the total market in FY2017.

As a result, the Group's business may be materially and adversely affected in the event of any adverse or unforeseeable change in the economic, political and social conditions in Hong Kong. The Group is unable to assure that such changes will not occur in the future.

Changes in tax laws and regulations may adversely affect the Group's business

Under the current Hong Kong laws and regulations, the Group's profit is subject to taxation in Hong Kong. There is no assurance that the current tax laws and regulations will not be revised or amended in the future. Any revision or amendment in the tax laws and regulations may have an adverse impact on the Group's business operations and financial results.

RISK FACTORS

Any change in the Hong Kong and PRC government policies regarding PRC tourists visiting Hong Kong could impact our business condition and results of operation

The Hong Kong jewelry industry has been, and will continue to be significantly impacted by spending by PRC tourists in Hong Kong. The Individual Visit Scheme, which was introduced in July 2003, allows PRC citizens from certain cities to visit Hong Kong on an individual basis. Our Directors believe that the growth in travel from the PRC to Hong Kong has contributed to increased sales of our products in Hong Kong over the past years. There has been recent discussion by government officials in Hong Kong and the PRC that the multiple-entry permits under the Individual Visit Scheme be tightened. The Hong Kong and Macao Affairs Office of the State Council confirmed on 13 April 2015 the implementation of the “one trip per week” policy, under which Shenzhen residents who hold multiple-entry permits can only visit Hong Kong once a week instead of without limit. Any measures adopted by the Hong Kong government and/or the PRC government to discourage PRC tourists visiting Hong Kong could result in decreased sales of the Group. The travel industry is highly susceptible to certain kinds of events that can negatively affect the reputation of Hong Kong or demand for travel to Hong Kong, including changes in the PRC government’s policies on granting tourist visas to enter Hong Kong or other tightening measures by the PRC government or other governments affecting travelling to Hong Kong, outbreaks of contagious diseases such as SARS, avian flu, swine flu or similar epidemics, natural disasters and massive riots. Significant economic downturns and decrease in consumer confidence in the PRC could also affect demand for travel to Hong Kong. In particular, there is no assurance that the Individual Visit Scheme will continue in the future. To the extent that the tourism industry is significantly impacted by events that adversely affect tourism to Hong Kong, our sales in Hong Kong could decline significantly, which could have a material adverse effect on our business, results of operations and financial condition.

The future occurrence of force majeure events, acts of terrorism, outbreaks of contagious diseases may materially and adversely affect the Group’s business, financial condition and results of operations

Any future occurrence of force majeure events, natural disasters or outbreaks of epidemics and contagious diseases, including avian influenza, severe acute respiratory syndrome, swine influenza or Ebola virus, may materially and adversely affect the Group’s business, financial condition and results of operations. Moreover, Hong Kong has experienced natural disasters such as typhoons and floods in the past few years. Any future occurrence of severe natural disasters in Hong Kong may materially and adversely affect its economy and therefore the Group’s business. There is no assurance that any future occurrence of natural disasters or outbreaks of epidemics and contagious diseases, or the measures taken by Hong Kong, PRC or the United States or other countries in response to such disasters or diseases, will not seriously disrupt the Group’s operations or those of its customers, therefore resulting in a material adverse effect on its business, financial condition and results of operations.

In addition, acts of war and terrorism may cause damage or disruption to the Group or its employees, facilities, the securities markets, or customers, any of which may materially and adversely affect its financial condition and results of operations. Potential war or terrorist attacks may also cause uncertainty and impair the Group’s business in ways that cannot be currently predicted.

RISK FACTORS

RISKS RELATING TO THE PRC

All of the Group's productions is located in the PRC. Accordingly, the results of operations, financial position and prospects of the Group are subject, to a significant degree, to the economic, political and legal developments of the PRC.

Political and economic policies of the PRC government could affect the Group's business

As all of the Group's production is located in the PRC, the Group's results, financial position and prospects are dependent on the economic, political and social conditions to a significant degree. Government policies, including taxation policies, of the PRC, could affect the Group's business. The PRC economy differs from the economies of most developed countries in many respects, including its structure, level of government involvement, level of development, growth rate, control of foreign exchange and allocation of resources. The PRC government continues to play a significant role in regulating industries by imposing industrial policies as the PRC economy is moving to a more market-driven economy. There can be no assurance that economic, political or legal systems of the PRC will not develop in a way which is detrimental to the Group's business, results of operations and prospects.

The government control of currency conversion could affect the Group's business operations

RMB is not freely convertible to other currencies at present. Under the current foreign exchange regulations, RMB is convertible without approvals from State Administration of Foreign Exchange ("SAFE") or its local counterpart only with regard to current account transactions, including trade and service related foreign exchange transactions and payment of dividends to foreign investors, while the foreign exchange transactions in respect of capital account items including the foreign currency capital in any foreign investment enterprise in the PRC, the repayment of foreign currency loans and the payment pursuant to foreign currency guarantees, continue to be subject to significant foreign exchange controls and require the prior approval of the SAFE or its local counterpart. There can be no assurance that the PRC government will not impose more stringent restrictions on the convertibility of RMB, especially relating to foreign exchange transactions. If the PRC government imposes additional restrictions on the convertibility of RMB, the Group may have difficulties converting HK\$ or other foreign currencies into RMB and *vice versa* for its operations in the PRC, and the Group's business operations could be materially and adversely affected.

Uncertainties regarding interpretation and enforcement of the PRC laws and regulations may impose material and adverse impact on the Group's business, operations and profitability

Although many laws and regulations have been promulgated and amended in the PRC since 1978, the PRC legal system is still not sufficiently comprehensive when compared to the legal systems of certain developed countries. The interpretation of the PRC laws and regulations may be influenced by momentary policy changes reflecting domestic political and social changes. In addition, it may also be difficult to enforce judgments and arbitration awards in the PRC. Many laws and regulations in the PRC are promulgated in broad principles and the Central People's Government of the PRC has gradually laid down implementation rules and has continued to refine and modify such laws and regulations. As the PRC legal system develops, the promulgation of new laws or refinement and

RISK FACTORS

modification of existing laws may affect foreign investors. There can be no assurance that future changes in legislations or the interpretation thereof will not have a material and adverse effect upon the Group's business, operations or profitability. There can be no assurance that introduction of new laws and amendments or interpretations of existing laws by the PRC government would not materially and adversely affect the Group's profitability and prospects. For details of some of the relevant PRC laws and regulations to which the Group is currently subject to, please refer to the section "Regulatory overview" in this prospectus.

Any change in the relevant PRC laws, regulations or policies regarding processing arrangements may materially and adversely affect the Group's operation and business

During the Track Record Period and up to the Latest Practicable Date, the Group relied on its production facility in Shenzhen, Guangdong Province in the PRC for production of its jewellery products. During the Track Record Period, the production of most of the Group's jewellery products was carried out in its production facility. Should production in the Group's production facility be prohibited or restricted for any reasons including but not limited to any change in the relevant PRC laws, regulations or policies, the Group may be materially and adversely affected.

Increase in labour costs in the PRC may inhibit the Group's ability to conduct some aspects of its operations in the PRC

All the Group's manufacturing operations are located in the PRC. In the future, labour costs in the PRC may increase, and as a result it may become increasingly difficult for the Group to maintain the profit margins achieved in previous years. In order to maintain current margins, the Group may be required either to increase its pricing or to locate manufacturing elsewhere. If the Group increases its prices, the Group's sales could fall and could lose market share if its competitors do not do the same. On the other hand, should the Group locate its manufacturing operations in areas of the PRC with lower labour costs, it may be difficult to find employees that meet its requirements in terms of training, experience and technical capability, which could affect manufacturing operations and the Group's ability to meet customer demand. In either instance, its business and results of operations could be adversely affected.

RISK RELATING TO THE SHARE OFFER AND THE SHARES

At times, the interests of the Controlling Shareholders may not be consistent with the interests of the other Shareholders. There is no assurance that the Controlling Shareholders will always take actions that will benefit the other Shareholders.

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 and further undertakings in favour of the Company and/or the Underwriters.

RISK FACTORS

There is no assurance that the Controlling Shareholders, whose interests may be different from those of other Shareholders, will not 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. The Controlling Shareholders may take actions with which you may not agree or which are not in the Company's or the public Shareholders' best interests.

Upon completion of the Share Offer, the Controlling Shareholders will own 75% of the Shares in issue. The Controlling Shareholders will therefore have significant influence over the Company's operations and business strategy, and may have the ability to require the Company to effect corporate actions according to their own desires. The interests of the Controlling Shareholders may not always coincide with the best interests of other Shareholders. If the interests of any of the Controlling Shareholders conflict with the interests of other Shareholders, or if any of the Controlling Shareholders choose to cause the business to pursue strategic objectives that conflict with the interests of other Shareholders, the Company or those other Shareholders may be adversely affected as a result.

There may be limited liquidity in the Shares and volatility in the price of the Shares on GEM and could result in substantial loss for investors purchasing the Shares in the Share Offer

The Shares have not been traded in an open market before completion of the Share Offer. The Offer Price may not serve as an indicator of the price of the Shares traded in GEM in the future. The Offer Price is the result of negotiations between the Company and the Joint Lead Managers (for themselves and on behalf of the Underwriters), and may be different from the market prices for the Shares after the Listing. There is no assurance that an active and liquid public trading market of the Shares will develop upon the Listing or if it does develop, that it may be sustained for any period of time after the Listing. The market price and trading volume of the Shares may fluctuate significantly and rapidly as a result of the following factors, among other things, some of which are beyond the Company's control:

- variation in the Group's results of operation;
- changes in securities analysts' analysis of the Group's financial performance;
- the Group's announcement of significant acquisitions, dispositions, strategic alliances or joint ventures;
- addition or departure of the Group's key personnel;
- fluctuations in market prices and trading volume of the Shares;
- the Group's involvement in litigation;
- development of GEM;
- general economic and stock market conditions in Hong Kong.

RISK FACTORS

All such factors may result in significant fluctuations in the market price and / or transactions volume of the Shares. There is no assurance that such changes will not occur.

The Group may require additional funding for future growth and the Shareholders' interest may be diluted as a result of additional equity fund-raising

The Group may be presented with opportunities to expand its business through acquisitions in the future. Under such circumstances, secondary issue(s) of securities after the Listing may be necessary to raise the required capital to capture these growth opportunities. If additional funds are raised by means of issuing new equity securities in the future to new and / or existing Shareholders after the Listing, such new Shares may be priced at a discount to the then prevailing market price. Inevitably, existing Shareholders if not being offered with an opportunity to participate, their shareholding interest in the Company will be diluted. Also, if the Group fails to utilise the additional funds to generate the expected earnings, this could adversely affect the Group's financial results and in turn exerts pressure to the market price of the Shares. Even if additional funds are raised by means of debt financing, any additional debt financing may, apart from increasing interest expense and gearing, contain restrictive covenants with respect to dividends, future fund raising exercises and other financial and operational matters.

RISKS RELATING TO STATEMENTS MADE IN THIS PROSPECTUS AND FROM OTHER SOURCES

Certain statistics and facts in this prospectus are derived from various official government sources and publications or other sources and have not been independently verified

This prospectus includes certain statistics and facts that are extracted from official government sources and publications or other sources. Whilst the Group believes that it is prudent for the Group to rely on such statistics and facts, there is no assurance that such statistics and facts are free from error or mistake.

The statistics and facts from these sources have not been independently verified by the Group, the Directors, the Sole Sponsor, the Joint Lead Managers/Joint Bookrunners, the Underwriters, or any of their respective directors, affiliates or advisers or any other party involved in the Share Offer and no representation is given as to their accuracy and completeness. Due to possible flawed or ineffective collection methods or discrepancies between published information and market practice and other problems, the statistics from official government publications referred to or contained in this prospectus may be inaccurate or may not be comparable to statistics produced for other economies and should not be relied upon. Furthermore, there is no assurance that they are stated or compiled on the same basis or with the same degree of accuracy as may be the case elsewhere. In all cases, investors should give consideration as to how much weight or importance they should attach to, or place on, such statistics or facts.

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

This prospectus contains certain statements and information that are "forward-looking" and uses forward-looking terminology such as "anticipate", "believe", "could", "expect", "estimate", "intend",

RISK FACTORS

“may”, “plan”, “seek”, “should”, “will”, “would” or similar terms. Those statements include, among other things, the discussion of the Group’s growth strategy and expectations concerning future operations, liquidity and capital resources. Investors of the Shares are cautioned that reliance on any forward-looking statements 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, but are not limited to, those identified in this section, many of which are not within the Group’s control. In light of these and other uncertainties, the inclusion of forward-looking statements in this prospectus should not be regarded as representations that the Group’s plans or objectives will be achieved and investors should not place undue reliance on such forward-looking statements. The Company does not undertake any obligation to update publicly or release any revisions of any forward-looking statements, whether as a result of new information, future events or otherwise. Please refer to the section headed “Forward-looking statements” in this prospectus for further details.

You are strongly cautioned not to place any reliance on any information contained in press articles, media coverage and / or research analyst reports regarding the Group, the Group’s industry or the Share Offer

There may be press articles, media coverage and / or research analyst reports regarding the Group, the Group’s industry or the Share Offer, which may include certain financial information, financial projections and other information about the Group that do not appear in this prospectus. The Company has not authorised the disclosure of any such information in the press, media or research analyst reports. The Company does not accept any responsibility for any such press articles, media coverage or research analyst reports 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 conflicts with the information contained in this prospectus, the Company disclaims it. Accordingly, prospective investors should not rely on any such information. In making your decision as to whether to purchase the Shares, you should rely only on the financial, operational and other information included in this prospectus.

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus, for which the Directors collectively and individually take full responsibility, includes particulars given in compliance with the Companies Ordinance, 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 purposes of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief:

- (a) the information contained in this prospectus is accurate and complete in all material respects and is neither misleading nor deceptive;
- (b) there are no other matters the omission of which would render any statement herein or this prospectus as a whole misleading; and
- (c) all opinions expressed in this prospectus have been arrived at after due and careful consideration and are founded on bases and assumptions that are considered fair and reasonable.

INFORMATION ON THE SHARE OFFER

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

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 Public Offer Shares are set out in the section headed "How to apply for Public Offer Shares" in this prospectus and in the relevant Application Forms.

UNDERWRITING

This prospectus is published solely in connection with the Share Offer. The Share Offer comprises the Placing and the Public Offer. For applicants under the Public Offer, this prospectus and the Application Forms set out the terms of the Public Offer. The Listing is sponsored by the Sole Sponsor and the Share Offer is lead managed by the Joint Lead Managers. Subject to the terms of the Underwriting Agreements (including the determination of the final Offer Price by agreement between the Company and the Joint Lead Managers (for themselves and on behalf of the Underwriters) on or around Friday, 5 October 2018 being the expected Price Determination Date or such later time as may be agreed by the Company and the Joint Lead Managers (for themselves and on behalf of the

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

Underwriters), and in any event no later than Saturday, 6 October 2018, the Public Offer Shares are fully underwritten by the Underwriters and the Placing Shares are fully underwritten by the Underwriters. For further information about the Underwriters and the underwriting arrangements, please refer to the section headed “Underwriting” in this prospectus.

DETERMINATION OF THE OFFER PRICE

The Offer Price is expected to be fixed by agreement between the Joint Lead Managers (for themselves and on behalf of the Underwriters) and the Company on the Price Determination Date. The Price Determination Date is expected to be on or around Friday, 5 October 2018 (or such later date as the Joint Lead Managers (for themselves and on behalf of the Underwriters) and the Company may agree and in any event no later than Saturday, 6 October 2018. If, for whatever reason, the Company and the Joint Lead Managers (for themselves and on behalf of the Underwriters) are not able to agree on the Offer Price, the Share Offer will not proceed and will lapse.

RESTRICTIONS ON OFFER AND SALE OF THE OFFER SHARES

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

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

The Offer Shares are offered solely on the basis of the information contained and representations made in this prospectus. 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 herein must not be relied upon as having been authorised by the Company, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, and any of their respective directors, officers, employees, affiliates and/or representatives or any other persons involved in the Share Offer. It is expected that, pursuant to the Share Offer, the Underwriters will conditionally offer the Offer Shares on behalf of the Company with the investors.

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

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

APPLICATION FOR LISTING ON GEM

The Company has applied to the Stock Exchange for the listing of, and permission to deal in, the Shares in issue and which are to be issued or may be issued pursuant to the Share Offer, the Capitalisation Issue and as otherwise described herein on GEM (including any Shares which may be issued pursuant to the exercise of any option which may be granted under the Share Option Scheme).

No part of the share or loan capital of the Company is listed, traded or dealt in on any stock exchange and save as disclosed herein, no such listing or permission to deal is being or proposed to be sought.

Under section 44B(1) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance, if the permission for the Shares offered under this prospectus to be listed on GEM has been 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 the Company for permission by or on behalf of the Stock Exchange, then any allotment made on an application in pursuance of this prospectus shall, whenever made, be void.

Pursuant to Rule 11.23(7) of the GEM Listing Rules, at the time of listing and at all times thereafter, the Company must maintain the minimum prescribed percentage of at least 25% of the issued share capital of the Company in the hands of the public.

Only securities registered on the branch register of members of the Company kept in Hong Kong may be traded on GEM unless the Stock Exchange otherwise agrees.

PROFESSIONAL TAX ADVICE RECOMMENDED

You should consult your professional advisers if you are in any doubt as to the taxation implications of the subscription for, purchase, holding or disposing of, dealings in, or exercise of any rights in relation to the Offer Shares. It is emphasised that none of the Company, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, and their respective affiliates, directors, officers, employees, agents or representatives or any other person or party involved in the Share Offer accepts responsibility for your tax effects or liabilities resulting from your subscription for, purchase, holding or disposing of, dealings in, or exercise of any rights in relation to the Offer Shares.

HONG KONG REGISTER OF MEMBERS AND STAMP DUTY

The Company's principal register of members will be maintained in the Cayman Islands by the Principal Share Registrar and the Company's Hong Kong register of members will be maintained in Hong Kong by the Hong Kong Branch Share Registrar at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.

All Offer Shares issued by the Company pursuant to the Share Offer will be registered on its branch register of members to be maintained in Hong Kong. Only Shares registered on its branch register of members maintained in Hong Kong may be traded on GEM, unless the Stock Exchange otherwise agrees.

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

Dealings in the Shares registered on the Company's branch register of members maintained in Hong Kong will be subject to Hong Kong stamp duty.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the approval of the listing of, and permission to deal in, the Shares on GEM and the Company's compliance 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 Listing Date or, under contingent situation, any other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day.

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

All necessary arrangements have been made for the Shares to be admitted into CCASS. If investors are unsure about the details of CCASS settlement arrangement and how such arrangements will affect their rights and interests, they should seek the advice of their stockbroker or other professional adviser.

COMMENCEMENT OF DEALING IN THE SHARES

Dealings in the Shares on GEM are expected to commence at 9:00 a.m. on Friday, 12 October 2018. Shares will be traded in board lot of 10,000 Shares each and are freely transferable. The stock code for the Shares is 8537.

No temporary documents or evidence of title will be issued.

CURRENCY TRANSLATIONS

In this prospectus, unless otherwise specified, amounts denominated in Renminbi have been translated, for the purpose of illustration only, into Hong Kong dollars and U.S. Dollars and *vice versa* at an exchange rate of HK\$1.00 = RMB0.80 and US\$1.00 = HK\$7.85. Such conversions shall not be construed as representations that amounts in Renminbi, Hong Kong dollars or U.S. Dollars were or could have been or could be converted into Renminbi, Hong Kong Dollars or U.S. Dollars (as the case may be) at such rates or any other exchange rates on such date or any other date.

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 or charts 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.

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

LANGUAGE

If there is any inconsistency between this prospectus and the Chinese translation of this prospectus, this prospectus shall prevail. Translated English names of PRC natural persons, legal persons, governmental authorities and departments, institutions, facilities, certificates, titles and the like or any descriptions for which no official English translation exists are unofficial translations from their corresponding names in Chinese or another language and are included for identification purposes only. In the event of inconsistencies, the name(s) in Chinese or such another language shall prevail. The English translation of such terms in Chinese or another language are for identification purposes only.

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

DIRECTORS

<u>Name</u>	<u>Address</u>	<u>Nationality</u>
<i>Executive Directors</i>		
Mr. Fu Chun Keung (傅鎮強)	Flat A, 57/F, Block 1 Ocean Pointe 8 Sham Tsz Street Sham Tseng New Territories Hong Kong	Chinese
Ms. Cheung Lai Yuk (張麗玉)	Flat A, 57/F, Block 1 Ocean Pointe 8 Sham Tsz Street Sham Tseng New Territories Hong Kong	Chinese
Ms. Fu Wan Ling (傅雲玲)	Flat 3515, 35/F, Block M Chung Chak House Tin Chung Court Tin Shui Wai New Territories Hong Kong	Chinese
<i>Independent non-executive Directors</i>		
Mr. Chan Cheong Tat (陳昌達)	Flat A, 7/F Block 3, City Garden North Point Hong Kong	Chinese
Mr. Wong Wing Keung Meyrick (王泳強)	Room 1907, Block M Kornhill Quarry Bay Hong Kong	Chinese
Mr. Chan Chi Ming Tony (陳子明)	Flat A, 19/F Tower 9, The Visionary 1 Ying Hong St Tung Chung Hong Kong	Australian

For the biographies of the Directors, please refer to the section headed “Directors and senior management” in this prospectus.

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

PARTIES INVOLVED

Sole Sponsor

South China Capital Limited

A corporate licensed under the SFO and permitted to carry out Type 6 (advising on corporate finance) of regulated activities as defined under the SFO
28/F, Bank of China Tower
No.1 Garden Road
Central
Hong Kong

Joint Bookrunners and Joint Lead Managers

South China Securities Limited

A corporation licensed under the SFO and permitted to carry out type 1 (dealing in securities) regulated activities as defined under the SFO
28/F, Bank of China Tower
No.1 Garden Road
Central
Hong Kong

Ping An Securities Limited

A corporation licensed under the SFO and permitted to carry out type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities as defined under the SFO
18/F CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

Co-Manager

CLC Securities Limited

A corporation licensed under the SFO and permitted to carry out type 1 (dealing in securities) and type 4 (advising on securities) regulated activities as defined under the SFO
13/F, Nan Fung Tower
88 Connaught Road Central
Central
Hong Kong

Legal advisers to the Company

As to Hong Kong law:

Li & Partners

22/F, World-Wide House
19 Des Voeux Road Central
Central
Hong Kong

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As to specific tax issue

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CORPORATE INFORMATION

Registered office	PO Box 309 Ugland House Grand Cayman, KY1-1104 Cayman Islands
Headquarters and principal place of business in Hong Kong	No. 6-13, Faerie Court 80 Ko Shan Road Hung Hom, Kowloon Hong Kong
Company's website	<u>www.dghcl.com</u> <i>(Note: contents in this website do not form part of this prospectus)</i>
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Company Secretary	Ms. So Shuk Yi Betty (<i>ACIs, ACS</i>) 40/F, Sunlight Tower No. 248 Queen's Road East Wanchai Hong Kong
Authorised representatives	Mr. Fu Chun Keung Flat A, 57/F, Block 1 Ocean Pointe 8 Sham Tsz Street Sham Tseng New Territories Hong Kong Ms. So Shuk Yi Betty 40/F, Sunlight Tower No. 248 Queen's Road East Wanchai Hong Kong
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Remuneration committee	Mr. Chan Chi Ming Tony (<i>Chairman</i>) Mr. Fu Chun Keung Mr. Wong Wing Keung Meyrick
Nomination committee	Mr. Fu Chun Keung (<i>Chairman</i>) Mr. Chan Cheong Tat Mr. Wong Wing Keung Meyrick

CORPORATE INFORMATION

Compliance adviser

Grand Moore Capital Limited

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

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Hong Kong Branch Share Registrar and transfer office

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Principal bank

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INDUSTRY OVERVIEW

The information that appears in this section has been prepared by Frost & Sullivan and reflects estimates of market conditions based on publicly available sources and is prepared primarily as a market research tool. References to Frost & Sullivan should not be considered as the opinion of Frost & Sullivan as to the value of any security or the advisability of investing in the Company. The Directors believe that the sources of information contained in this section are appropriate sources for such information and have taken reasonable care in reproducing such information. The Directors have no reason to believe that such information is false or misleading or that any material fact has been omitted that would render such information not reliable, false or misleading. The information prepared by Frost & Sullivan and set out in this section has not been independently verified by the Company, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriter(s) or any other party (save for Frost & Sullivan) or affiliate involved in the Share Offer and neither they give any representations as to its accuracy and the information should not be relied upon in making, or refraining from making, any investment decision. As the Group's financial year begins from 1 April and ends on 31 March all references to "FY2015", "FY2016", "FY2017", "FY2018", "FY2019", "FY2020", "FY2021" and "FY2022" under this section mean the financial years ended/ending 31 March 2015, 2016, 2017, 2018, 2019, 2020, 2021 and 2022, respectively.

SOURCE OF INFORMATION

The Company have commissioned Frost & Sullivan, an Independent Third Party, to conduct a study of the jewellery industry in Hong Kong. The Company agreed to pay Frost & Sullivan a fee of HK\$420,000 for the preparation of the Frost & Sullivan Report, and the Directors consider that such fee reflects market rates.

The methodology used by Frost & Sullivan in gathering the relevant market data in compiling the Frost & Sullivan Report included secondary research and primary interviews. Secondary research involves information integration of data and publication from publicly available resources, including official data and announcements from Hong Kong government departments, and market research on industry and enterprise player information issued by the Group's chief competitors. Primary interviews are conducted with relevant institutions to obtain objective and factual data and prospective predictions. Frost & Sullivan conducts research on market size, share and segmentation analyses, competitor tracking and corporate intelligence, etc. Except as otherwise noted, all of the data and forecasts contained in this section are derived from the Frost & Sullivan Report, various official government publications and other publications. Some of the information extracted from the Frost & Sullivan Report are also referred to in the sections headed "Summary", "Risk factors", "Business" and "Financial information" in this prospectus. The Directors confirm that, after taking reasonable care, there is no adverse change in the market information since the date of the Frost & Sullivan Report which may qualify, contradict or have an impact on the information in this section.

Frost & Sullivan is a global consulting company founded in 1961 in New York and has over 40 global offices with more than 2,000 industry consultants, market research analysts, technology analysts and economists. Frost & Sullivan's services include technology research, independent market research, economic research, corporate best practices advising, training, customer research, competitive intelligence and corporate strategy. Frost & Sullivan has four offices in China and direct access to the most knowledgeable experts and market participants in the jewellery industry.

Assumptions used in the Frost & Sullivan Report

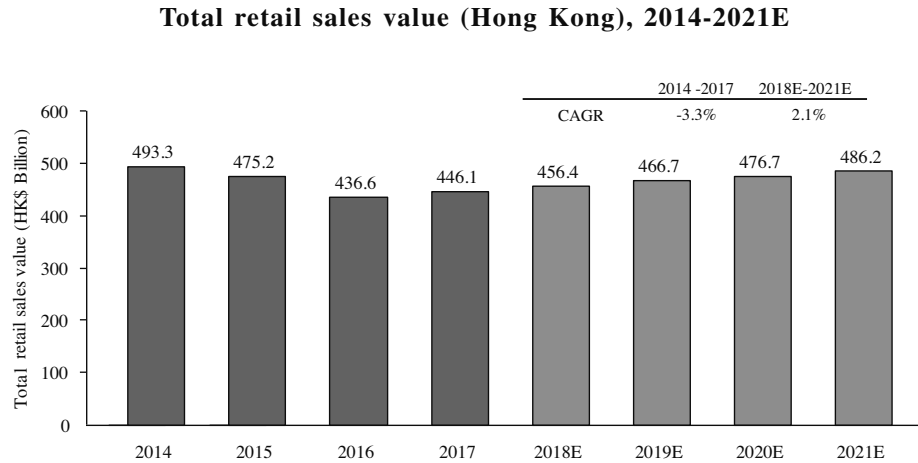
In compiling and preparing the Frost & Sullivan Report, Frost & Sullivan has adopted the following assumptions: (i) the economy of Hong Kong is assumed to maintain steady growth across the forecast period; (ii) the social, economic and political environments of Hong Kong are likely to remain stable in the forecast period, which ensure the stable and healthy development of the jewellery market; and (iii) there is no war or large scale disaster during the forecast period; and the following key parameters: (a) nominal GDP and GDP growth rate of Hong Kong; and (b) total retail sales value of Hong Kong.

INDUSTRY OVERVIEW

Reliability of information in the Frost & Sullivan Report

The Directors are of the view that the sources of information used in this section are reliable as the information was extracted from the Frost & Sullivan Report. The Directors believe that the Frost & Sullivan Report is reliable and not misleading as Frost & Sullivan is an independent professional research agency with extensive experience in its profession.

TOTAL RETAIL SALES VALUE OF HONG KONG



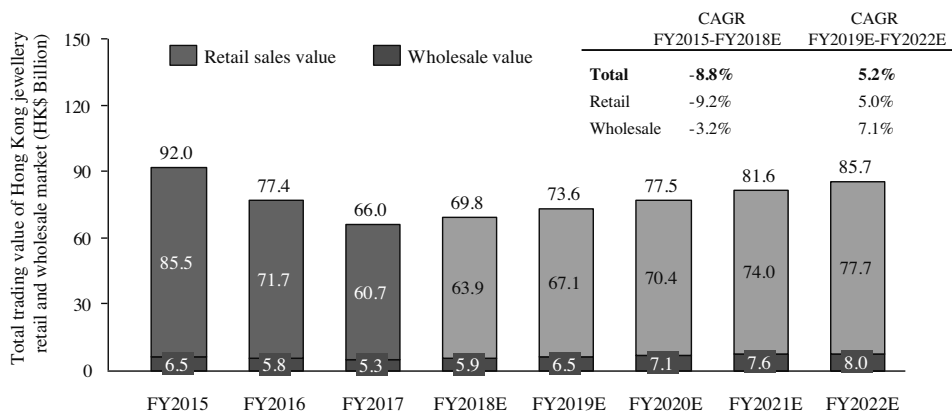
Note: "E" denotes estimate.

Sources: Census and Statistics Department of Hong Kong; Frost & Sullivan

From 2014 to 2017, the total retail sales value in Hong Kong remained quite stable, with a CAGR of approximately -3.3%. Due to some unexpected political issues and reductions in inbound tourists, the total retail sales value experienced decrease in 2015 and 2016, with growth rates of approximately -3.7% and -8.1%, respectively. However, in 2017, the total retail sales value recovered by approximately 2.2% as compared with 2016. It is expected that the retail sales value would remain relatively stable in the following years due to the growing consumption power of local residents and recovering macro economy and tourism industry.

OVERVIEW OF HONG KONG JEWELLERY RETAIL AND WHOLESALE MARKET

Total trading value of jewellery retail and wholesale market (Hong Kong), FY2015-FY2022E



INDUSTRY OVERVIEW

Note: “E” denotes estimate and “FY” refers to the financial year ended 31 March.

Source: Frost & Sullivan

Jewellery products in Hong Kong could be segmented into three segments by price. Luxury jewellery products refer to products with a retail price of above HK\$100,000 per piece. Luxury jewellery products are mainly high value gem-set jewellery products, which are usually provided in international luxury jewellery brand stores and large local brand stores. Mid-to-high-end luxury jewellery (or mass luxury jewellery) products refer to products with a retail price of from HK\$2,000 to HK\$100,000 per piece. Mid-to-high-end luxury jewellery products cover the most widely products. Mass jewellery products refer to products with a retail price of less than HK\$2,000 per piece. Mass jewellery products are mostly small jewellery products made by gold and platinum/karat gold, such as earrings, rings, pendants, necklaces, bracelets, etc., and silver jewellery products, which are usually provided in local brand stores and domestic brand stores.

The total trading value of jewellery retail and wholesale market in Hong Kong has witnessed a decline from approximately HK\$92.0 billion FY2015 to approximately HK\$66.0 billion in FY2017, driven by decreasing inbound tourists, especially from China. However, the market is expected to experience a rebound afterwards to approximately HK\$69.8 billion in FY2018 due to the favourable overall retail market in Hong Kong. Retail is an important sector in the jewellery market in Hong Kong, accounting for approximately 92.0% of the total market in FY2017.

In 2017, the market of jewellery retail and wholesale in Hong Kong recovered due to consumers' higher consumption motivation. The year of 2017 had double Lichun (立春) and leap month (雙春兼閏月) in terms of lunar calendar, and was considered as a year full of happiness and a suitable year to get married by Chinese people leading to a drive in demand of jewellery products, and it is a common practice for Chinese people to purchase jewellery as styling items, trousseau, and gifts for weddings. Furthermore, the market is expected to recover further in the following years and reach approximately HK\$85.7 billion in FY2022, representing a CAGR of approximately 5.3% from FY2018 to FY2022, driven by the overall rebound in Hong Kong's tourism industry and total retail sales.

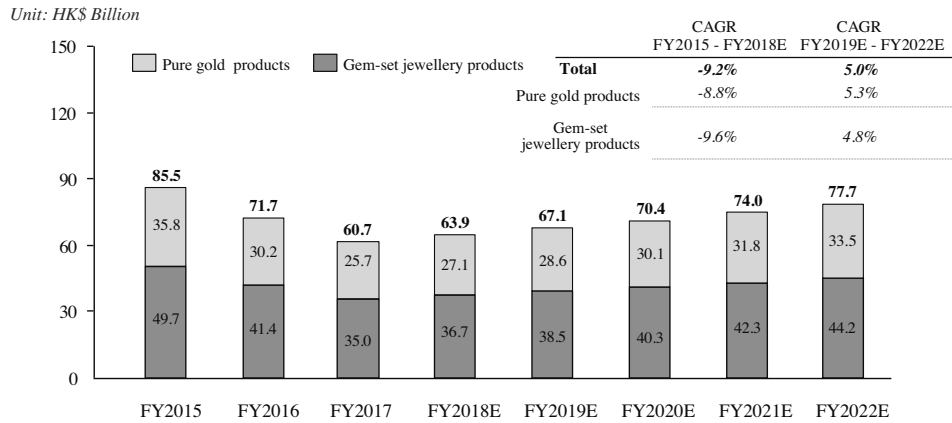
In particular, the tourism industry in Hong Kong recovered in 2017 with a growth rate of 3.9% after a drop from 2014 to 2016. During the period from 2013 to 2017, the visitor arrivals in Hong Kong from China grew from 40.7 million to 44.4 million, realising a CAGR of approximately 2.2%. According to the Immigration Department of Hong Kong, the tourism industry witnessed a sharp growth during the first seven months in 2018. The number of visitor arrivals from China grew 16.0% compared to the same period in 2017. Since Hong Kong is developing new attractions to maintain Hong Kong's attractiveness to tourists from China, it is forecast that the number of visitor arrivals from China would keep the growing trend at a CAGR of 6.6% from 2017 to 2022, reaching 61.3 million in 2022.

Driven by the growing visitor arrivals and also the growing consumption power of local residents, the total retail sales value of jewellery, watches and clocks, and valuable gifts in 2017 grew at a year-to-year rate of 5.3%. In the first three months of 2018, the value increased sharply at a rate of 21.7% compared with the same period in 2017. The recovering tourism shows a great opportunity for jewellery retailers in Hong Kong.

INDUSTRY OVERVIEW

Jewellery in Hong Kong could be segmented into the following categories: pure gold products and gem-set jewellery products.

Retail sales value breakdown of jewellery by product category (Hong Kong), FY2015 - FY2022E



Note: "E" denotes estimate and "FY" refers to the financial year ended 31 March.

Source: Frost & Sullivan

Pure gold products, is a major segment of Hong Kong jewellery market in terms of retail sales value, representing approximately 42.3% of the total jewellery retail market in FY2017. Gem-set and other jewellery products, representing approximately 57.7% of the total market in the same financial year. Gold jewellery is one of the representatives of Chinese-style jewellery products due to the long history of the Chinese culture in using gold as accessories, its proportion has been increasing from approximately 41.9% in FY2015 to approximately 42.3% in FY2017, and the trend is likely to sustain in the next several financial years due to the favourable local economic environment and increased consumption of both local residents and tourists. During the period from FY2015 to FY2018, the retail sales value of jewellery showed a downward trend mainly due to the decrease of tourism industry. The retail sales of gold products decreased from approximately HK\$35.8 billion in FY2015 to approximately HK\$27.1 billion in FY2018. The market recovered from FY2018 due to the recovering tourism market and the growing consumption of local residents.

Major market drivers

Growing consumption power

Per capita nominal GDP is expected to grow at a CAGR of approximately 3.6% from 2017 to 2021 and reach approximately HK\$404,419 in 2021. Purchasing power of Hong Kong citizens has been increasing accordingly, and is likely to sustain the growing trend with the favourable macro economic conditions forecast in Hong Kong. Increasing purchasing power of Hong Kong citizens is expected to drive the growth of overall retail market in Hong Kong, thus driving the recovery and future growth of Hong Kong jewellery retail and wholesale market.

Demand for well-designed jewellery

Consumers currently are putting great stress not only on quality but also design of jewellery products. In that case, it is necessary for jewellery manufacturers to make more effort on unique design and making technique. Innovative designs are important for jewellers differentiating from other jewellery brands.

INDUSTRY OVERVIEW

Increasing number of young consumers

An increasing number of younger consumers have become the new drivers for Hong Kong jewellery market. Young working groups aged from 20 to 25 are more fashion oriented and willing to buy fashionable fine jewellery products for daily wear. Those young consumers are likely to drive the potential growth in the next few years.

Seasonality

The jewellery market in Hong Kong has seasonal patterns. New couples prefer to get married in the years with double springs (雙春, i.e. years of 2012, 2014, 2017). Also, less weddings are held during the period from June to September than other months due to the hot and humid weather in summer in Hong Kong. The seasonality of wedding reflects on the market of jewellery in Hong Kong as most couples and their families would choose to buy jewellery products when getting married.

Opportunities

Increasing reliance on online marketing

Online marketing is becoming an essential part of effective promotion strategies since consumers can easily obtain information from and be influenced by comments on the internet. Strengthening marketing on the internet would be an effective way for companies to gain greater brand awareness and recognition. In addition, some companies that rely on sales to tourists faced a drop in sales due to the declining tourism industry. For these companies, enhancing their online to offline (O2O) and E-commerce channels would be an opportunity to develop local market targeted at young demographics and overseas markets.

One Belt One Road initiative

Hong Kong has evolved into a leading centre for the trading and distribution of jewellery due to the development of pearl industry in China and the implement of favourable policies including One Belt One Road. Based on One Belt One Road, which aims at accelerating the development of trading among countries and regions along the New Silk Road including China, Hong Kong, Southeast Asia, etc., Hong Kong General Chamber of Jewellery has set a platform as trading centre for jewellery and jewel materials. The Chamber encourages jewellery trading in Hong Kong and hope that Hong Kong could become the global distributing center of jewellery and jewel materials. With the favourable policies, it is likely that Hong Kong jewellery manufacturers and wholesalers would expand their businesses to China and overseas markets. The jewellery industry increases in line with the growing consumption power of Chinese consumers in recent years, providing a potential for Hong Kong jewellery retailers and wholesalers.

Increasing number of tourists

Supported by the increasing China city coverage of the Individual Visit Scheme, the construction of railway infrastructure between Hong Kong and the neighbouring Chinese cities, and the continual development of new tourist attractions of Hong Kong, the total visitor arrivals to Hong Kong are expected to witness a growing trend from 2016 to 2021, with an increasing number of visitors from approximately 56.7 million in 2016 to approximately 65.7 million in 2021. According to the Hong Kong Tourism Commission's website, the total visitor arrivals rose by 3.2% in 2017 to reach about 58.8 million. The PRC, is Hong Kong's largest source market accounting for 76% of its total arrivals, recorded a solid rebound of 3.9% in the number of visitors. Going forward, the increase in visitors from PRC is expected to have a positive effect on the Group's business.

INDUSTRY OVERVIEW

Concentration of market players

The market is likely to be more concentrated since consumers would have more confidence on relatively large players. There will be more large and medium players acquiring small retailers due to their financial strength and cost efficiency.

Threats

Market condition of the local tourism industry

Affected by the anti-China activities, the outbreak of MERS in South Korea, and the stagnant global economy, Hong Kong's tourism industry observed a drop of 4.5% in 2016 in terms of total visitor arrival. China visitor arrivals, accounting for 75.5% of the overall market, dropped 6.7% in 2016. The potential fluctuations of the tourism industry pose challenge to the overall retail market and jewellery retail market in Hong Kong.

Fast-changing consumer appetite

In recent years, jewellery retailers are becoming more fashion oriented. Brand jewellery is following more closely with the fashion trends and targeting young consumers. Hence, it is becoming more important for manufacturers and distributors to keep up with the latest trends, to design and to extend the portfolio in order to attract more consumers and gain larger market size.

The ease of online retailing

Nowadays, consumers can access to almost all products and services via internet, contributed by the online retailing and emergence of various payment platforms. This somehow creates competition for traditional brick-and-mortar retailers (i.e. retailers with a physical shop), which refers to physical business that deal with customers face to face in stores, as customers can directly purchase online rather than buying from the retail stores. Apart from the strengthened convenience and the time-saving factor for jewellery consumers to purchase online, online jewellery retailing has further advantage in terms of cost, primarily the saving on the high rent in Hong Kong and the additional cost of involving specialised staff for on-site sales.

Competitive landscape of the Hong Kong jewellery retail and wholesale market

The jewellery retail and wholesale market in Hong Kong was concentrated in FY2017, with top five players together accounted for approximately 58.2% of the total jewellery retail and wholesale market in Hong Kong in terms of retail and wholesale sales value. It is expected that the top five companies in the retail and wholesale Hong Kong retail jewellery market will continue to maintain a large proportion of market share in the future. As of 31 March 2017, there were over 300 jewellery retailers and wholesalers in Hong Kong jewellery market according to Hong Kong General Chamber of Jewellery, the majority of which were small and medium local players, with revenue per store of less than HK\$30 million per year or total store number of less than 10 according to segmentation by the Hong Kong Jewelry Manufacturers' Association and Hong Kong Jewellers' & Goldsmiths' Association, which can be considered as industry benchmarks. In terms of revenue, small and medium local jewellery retailers and wholesalers together accounted for approximately 38.5% of the total jewellery retail and wholesale market in Hong Kong in FY2017.

INDUSTRY OVERVIEW

Top ten players and the Group in the jewellery retail and wholesale market (Hong Kong), FY2017 (by revenue)

The following table sets forth the information of the major companies in Hong Kong jewellery market:

Ranking	Company name	Approximate revenue in FY2017 <i>(HK\$' million)</i>	Market share	Number of retail stores in Hong Kong as at 31 March 2017
1	Company A	17,111	25.9%	80
2	Company B	8,670	13.1%	67
3	Company C	7,786	11.8%	47
4	Company D	2,620	4.0%	42
5	Company E	2,228	3.4%	11
6	Company F	1,164	1.8%	28
7	Company G	603	0.9%	22
8	Company H	446	0.7%	10
9	Company I	270	0.4%	7
10	The Group	191	0.3%	7
	Others	24,934		
	Total	<u>66,023</u>		

Notes:

- (1) Percentage may not total 100% due to rounding.
- (2) The number of retail store refers to self-operated stores, authorised retail stores are excluded.
- (3) The Group's audited revenue refers to the financial year ended 31 March 2017.
- (4) Information of the major market players of the jewellery retail and wholesale market in Hong Kong for FY2018 is not yet available.
- (5) The data is based on the annual reports of listed companies, Frost & Sullivan's database and detailed primary interview with leading participants in the market.
- (6) Major companies refer to leading companies, including both Hong Kong and International based jewellery companies, in the market in terms of revenue.

Source: Frost & Sullivan

The top 10 small and medium local players in jewellery retail and wholesale market together accounted for approximately 1.9% of the total market.

INDUSTRY OVERVIEW

Top ten small and medium local players in the jewellery retail and wholesale market (Hong Kong), FY2017 (by revenue)

Ranking	Company name	Approximate revenue in FY2017 <i>(HK\$' million)</i>	Market share	Number of retail stores in Hong Kong as at 31 March 2017
1	Company I	270.0	0.4%	7
2	The Group	191.0	0.3%	7
3	Company J	174.9	0.3%	7
4	Company K	156.2	0.2%	6
5	Company L	110.5	0.2%	6
6	Company M	91.6	0.1%	4
7	Company N	88.5	0.1%	5
8	Company O	75.0	0.1%	4
9	Company P	62.5	0.1%	4
10	Company Q	56.2	0.1%	3
	Total	<u>1,276.4</u>	1.9%	

Notes:

- (1) The number of retail stores refers to self-operated stores, authorised retail stores are excluded.
- (2) The Group's audited revenue refers to the financial year ended 31 March 2017.
- (3) Information of the other small and medium players is for FY2018 is not yet available.
- (4) The data is based on the annual reports of listed companies, Frost & Sullivan's database and detailed primary interview with leading participants in the market.

Source: Frost & Sullivan

Although small and medium local jewellery players in Hong Kong were inferior to leading players in terms of retail network and market penetration, they were gradually enhancing brand recognition and image by enhancing marketing and promotional activities in a more efficient manner, participating in large-scale jewellery exhibitions and tradeshow, getting more fashion oriented to improve product designs and varieties. In addition, the small and medium local jewellery players in Hong Kong usually target local citizens rather than tourists as their main target customers. In that case, those local players are less likely to be influenced by the declined Hong Kong tourism market and decrease in the relative purchasing power of the PRC tourists.

Entry barriers

Initial investment

The value of jewellery products is comparatively high given that the raw materials used in the jewellery industry are all diamonds, gemstones or precious metals with high value. As a result, initial investments for new jewellery retailers and wholesalers can be substantial, which makes it very difficult for retailers without large amounts of capital to enter the jewellery market. Particularly if the player wants to have its own manufacturing capability, the start-up costs will be high. In other words, the capital barrier for jewellery market entry is rather high. Besides, the returns from jewellery investment can be slow if the sales volume is limited.

Building and operating sales network

A good sales network is a critical factor for a jewellery brand to gain market share, raise its brand awareness and enhance the added value of its products. However, it is not easy to build and operate

INDUSTRY OVERVIEW

such a network for new entrants. In order to be able to succeed in the jewellery business, mass scale business and chain stores operation are necessary. A long-term effort and large marketing investment are required to occupy these markets and build a well-developed network. Building and operating sales network is another barrier to entry.

Brand recognition and awareness

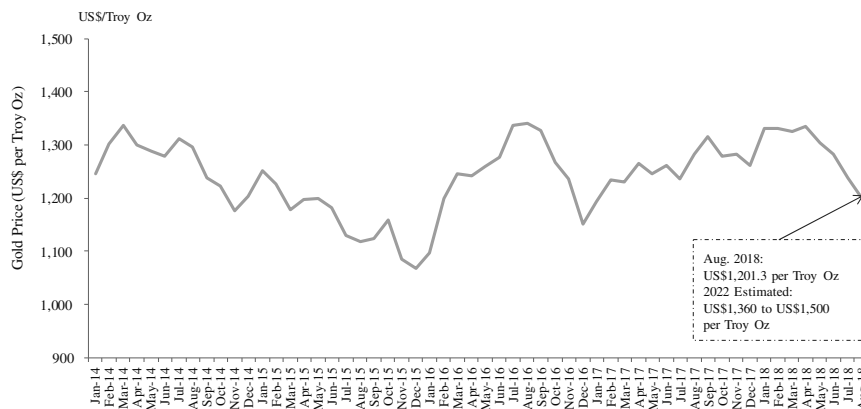
Existing leading market players have already gained high reputation among Hong Kong consumers. Meanwhile, it can be difficult for new enterprises to promote their brand awareness as well as to penetrate into the market. Hence it is extremely important for new entrants to invest more on promotion and improve their brand recognitions and awareness in order to gain market share. Without brand recognition and reputation, it might be hard for the new entrants to attract consumers.

To catch the market trend in a timely fashion

Design is essential for jewellery products since consumers are laying more emphasis on the style and jewellerys are becoming increasingly fashion oriented. For the new entrants with roughly no wholesaling or retailing experience, it is hard for them to catch the market trend in a timely fashion and hence attract more consumers comparing with existing players.

Historical price trends of raw materials and other major cost components

Monthly Average Price of Gold in the Global Market, January 2014-August 2018



Sources: World Gold Council, Frost & Sullivan

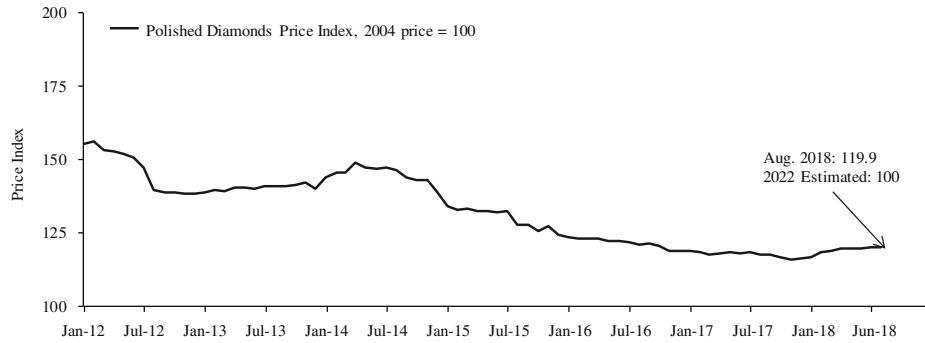
Gold is one of the most important commodities in the world, and gold is also the major raw material of jewellery. The yearly average price of gold in global market experienced a twisted period and varied from approximately HK\$12,946 per oz. in 2012 to approximately HK\$8,993 per oz. in 2015, and then recovered gradually to approximately HK\$9,797 per oz. in 2017. In the next few years, gold price is projected to remain steady and range between HK\$10,000 per oz. and HK\$11,000 per oz. in 2022. Gold price is influenced by global macro economy, exchange rate policies, inflation, and consumers' demands.

Recycled gold is another source of raw material of jewellery. Nearly all the jewellery retailers and wholesalers in Hong Kong purchase unwanted golden jewellery products from customers at a price that is slightly lower than the price of gold and then sell the recycled gold jewellery products to the goldsmith for reprocessing. The price of recycled gold is normally around 80% to 95% of the price of gold and is determined by the retailers in terms of physical properties, such as purity of the gold and weight loss, of the unwanted jewellerys. The value of recycled gold traded has been on a rise in Hong Kong in recent years, with market size by trading value (i.e. the value of recycled gold products

INDUSTRY OVERVIEW

collected from the mass public sellers) amounting to approximately HK\$4.7 billion, HK\$5.0 billion and HK\$5.3 billion respectively in 2014, 2015 and 2016. The decrease of the prices of raw materials enables the manufacturers and brand-owners to cut costs and hence lead to a lower price of final products.

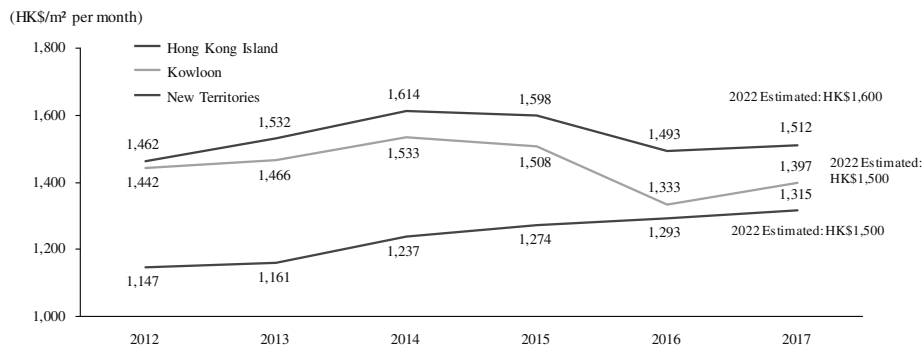
Polished Diamonds Price Index, January 2012-August 2018



Sources: General polished-diamond price index (PolishedPrices.com), Frost & Sullivan

The global polished diamonds price index refers to polished diamond prices screened for anomalies, factored, have various algorithms applied depending upon their position on the price grid and reflects the price of polished diamonds. The index showed a downward trend from 2012 to 2016, and it declined from 155.2 in January 2012 to 119.9 in August 2018. The index is likely to continue decreasing in the next 5 years and fall to approximately 100 in 2022. Slowing demand, combined with high inventory levels, contributed to a decline in polished diamonds price of 10.0% in 2015 and 6.8% in 2016, respectively. The retail price of diamond is largely decided by 4 Cs, which are color, cut, clarity, and carat. As such, the unit cost of diamonds below one carat are much lower than the unit cost of diamond above one carat. In 2017, a one-carat round diamond generally was priced between US\$7,000 per piece to US\$12,000 per piece.

Average Rents of Private Retail (Hong Kong), 2012-2017



Sources: Census and Statistics Department of Hong Kong, Frost & Sullivan

The average rents of private retail in Hong Kong Island and Kowloon showed steady growth from 2012 to 2014. However, the rents declined in 2015 and 2016, and slightly recovered in 2017, realising CAGRs of approximately -0.3% and -1.2%, respectively, from 2012 to 2017. On the other hand, the rents in the New Territories increased gradually with a CAGR of approximately 3.2% from 2012 to 2017. The average rents of overall Hong Kong realised a CAGR of approximately 0.4% during the same period. The rents of private retail are expected to grow slightly due to the recovering retail market. The average rent of private retail in Hong Kong Island is forecast to reach HK\$1,600 per square metre per month, while the rents in Kowloon and New Territories are expected to reach HK\$1,500 per square metre per month in 2022.

REGULATORY OVERVIEW

REGULATORY REQUIREMENTS IN HONG KONG

This section sets out an overview of material laws, regulations and rules applicable to the Group's business in Hong Kong.

BUSINESS REGISTRATION

The Business Registration Ordinance (Chapter 310 of the Laws of Hong Kong) requires every person carrying on any business shall make application to the Commissioner of Inland Revenue in the prescribed manner for the registration of that business. The Commissioner of Inland Revenue must register each business for which a business registration application is made and as soon as practicable after the prescribed business registration fee and levy are paid and issue a business registration certificate or branch registration certificate for the relevant business or the relevant branch as the case may be.

TRADE DESCRIPTIONS ORDINANCE

False Trade Description

One key objective of the Trade Descriptions Ordinance is to prohibit false trade descriptions in respect of goods provided in the course of trade or suppliers of such goods. Section 7(1) of the Trade Descriptions Ordinance provides that a person commits an offence if:

- (i) in the course of any trade or business—
 - (a) applies a false trade description to any goods; or
 - (b) supplies or offers to supply any goods to which a false trade description is applied; or
- (ii) has in his possession for sale or for any purpose of trade or manufacture any goods to which a false trade description is applied.

A person exposing goods for supply or having goods in his possession for supply shall be deemed to offer to supply them.

Section 12 of the Trade Descriptions Ordinance further prohibits a person from importing or exporting any goods to which a false trade description is applied and specified that offenders will commit an offence.

Pursuant to section 18(1) of the Trade Descriptions Ordinance, any person who commits an offence under section 7 or 12 of the Trade Descriptions Ordinance shall be liable (i) on conviction on indictment, to a fine of HK\$500,000 and to imprisonment for 5 years; and (ii) on summary conviction, to a fine at HK\$100,000 and to imprisonment for 2 years.

REGULATORY OVERVIEW

Section 2 of the Trade Descriptions Ordinance provides that a “trade description”, in relation to goods, means an indication, direct or indirect, and by whatever means given, with respect to the goods or any part of the goods including an indication of (i) quantity (which includes length, width, height, area, volume, capacity, weight and number), size or gauge; (ii) method of manufacture, production, processing or reconditioning; (iii) composition; (iv) fitness for purpose, strength, performance, behaviour or accuracy; (v) compliance with a standard specified or recognised by any person, etc.

Section 2 of the Trade Descriptions Ordinance further provides that a “false trade description” is where a trade description is either (a) false to a material degree; or (b) though not false, is misleading, that is to say, likely to be taken for a trade description of a kind that would be false to a material degree.

Section 3 of the Trade Descriptions Ordinance imposes a particularly stringent standard on false trade description of fineness of gold. As long as the indication (whether in parts per thousand or in karats) of the fineness of gold is overstated to any extent or degree (rather than to a material degree), that trade description shall be a false trade description. Further, any number of 1 or 2 digits on an article which indicates or purports to indicate, or is likely to be taken as an indication of, the fineness in karats of its gold content shall be a false trade description unless the article contains at least the same proportion of pure gold as the number bears to 24; whereas any number of 3 digits on an article which indicates or purports to indicate, or is likely to be taken as an indication of, the fineness in number of parts per thousand of its gold content shall be a false trade description unless the article contains gold of such a standard of fineness.

Definition Orders

Section 33 of the Trade Descriptions Ordinance empowers, among others, the Chief Executive in Council to assign meanings, by regulations, to certain expressions when used in connection with the supply of goods in the course of a trade or business or as part of, a trade description applied to the goods if that (i) would be in the interest of the buyers of the goods or services or (ii) would be in the interest of the exporters of goods or services and would not be contrary to the interest of the domestic buyers of the goods.

The Chief Executive in Council has made regulations to assign meanings to the following products sold by the Group:

- (i) Platinum: Trade Descriptions (Definition of Platinum) Regulations (Chapter 362B of the Laws of Hong Kong);
- (ii) Fei Cui and Natural Fei Cui: Trade Descriptions (Definition of Fei Cui and Natural Fei Cui) Regulations (Chapter 362K of the Laws of Hong Kong); and
- (iii) Diamond: Trade Descriptions (Definition of Diamond) Regulations (Chapter 362L of the Laws of Hong Kong) respectively.

REGULATORY OVERVIEW

Marking or Provision of Information Orders

Section 4(1) of the Trade Descriptions Ordinance provides that the Chief Executive in Council may by order:

- (i) require, among others, that any goods specified in the order must be marked with or accompanied by any information or instruction relating to the goods or services and, subject to the provisions of the Trade Descriptions Ordinance, impose requirements for securing that the goods are so marked or accompanied; and
- (ii) regulate or prohibit the supply of goods with respect to which the requirements are not complied with.

Any person who, in the course of any trade or business, supplies or offers to supply goods of any description in contravention of the applicable marking or provision of information order, or any trader who supplies or offers to supply services of any description to a consumer in contravention of the applicable making or provision of information order, commits an offence and shall be liable (a) on conviction on indictment, to a fine of HK\$500,000 and to imprisonment for 5 years; and (b) on summary conviction, to a fine at HK\$100,000 and to imprisonment for 2 years pursuant to section 18(1) of the Trade Descriptions Ordinance.

The Chief Executive in Council has promulgated the following orders relating to the business engaged by the Group:

- (i) Trade Descriptions (Marking) (Gold and Gold Alloy) Order (Chapter 362A of the Laws of Hong Kong);
- (ii) Trade Descriptions (Marking) (Platinum) Order (Chapter 362C of the Laws of Hong Kong);
- (iii) Trade Descriptions (Provision of Information on Natural Fei Cui) Order (Chapter 362M of the Laws of Hong Kong); and
- (iv) Trade Descriptions (Provision of Information on Diamond) Order (Chapter 362N of the Laws of Hong Kong).

The first and the second of the above orders impose requirements on how articles of gold, gold alloy containing not less than 8 karats or of a fineness of not less than 333 and platinum (as defined under the Trade Descriptions (Definition of Platinum) Regulations) and articles with a surface treatment of gold and platinum should be marked.

All four of the above orders also require any person supplying articles of gold, gold alloy, platinum, natural fei cui or diamond in the course of trade or business at retail level to (i) include certain details of supplier and the product supplied in their sales invoice and receipt; (ii) retain such invoice or receipts for not less than 3 years from the date of issue; and (iii) display a notice at prominent position to all customers at the points of sale showing the statements as prescribed under the respective orders.

REGULATORY OVERVIEW

SUPPLY OF GOODS

The Sales of Goods Ordinance (Chapter 26 of the Laws of Hong Kong) which aims to codify the laws relating to the sale of goods provides that:

- (i) under section 15, where there is a contract for the sale of goods by description, there is an implied condition that the goods shall correspond with the description;
- (ii) under section 16, where a seller sells goods in the course of a business, there is an implied condition that the goods supplied under the contract are of merchantable quality, except that there is no such condition (a) as regards to defects specifically drawn to the buyer's attention before the contract is made; or (b) if the buyer examines the goods before the contract is made, as regards defects which that examination ought to reveal; or (c) if the contract is a contract by sample, as regards defects which would have been apparent on a reasonable examination of the sample; and
- (iii) under section 17, where there is a contract for sale by sample, there are implied conditions that (a) the bulk shall correspond with the sample in quality, (b) the buyer shall have a reasonable opportunity of comparing the bulk with the sample, and (c) the goods shall be free from any defects, rendering them unmerchantable, which would not be apparent on reasonable examination of the sample.

Where any right, duty or liability would arise under a contract of sale of goods by implication of law, it may (subject to the Control of Exemption Clauses Ordinance (Chapter 71 of the Laws of Hong Kong)) be negated or varied by express agreement, or by course of dealings between the parties, or by usage if the usage is such as to bind both parties to the contract.

SUPPLY OF SERVICES

The Supply of Services (Implied Terms) Ordinance (Chapter 457 of the Laws of Hong Kong) which aims to consolidate and amend the laws with respect to the terms to be implied in contract for the supply of services (including a contract for the supply of a service whether or not goods are also transferred or to be transferred, or bailed or to be bailed by way of hire) provides that:

- (i) where the supplier is acting in the course of a business, there is an implied term that the supplier will carry out the service with reasonable care and skill; and
- (ii) where the supplier is acting in the course of a business, the time for service to be carried out is not fixed, is not left to be fixed in a manner agreed by the contract or is not determined by the course of dealing between the parties, there is an implied term that the supplier will carry out the service within a reasonable time.

Where a supplier is dealing with a party to a contract for supply of service who deals as a consumer, the supplier cannot, by reference to any contract term, exclude or restrict any liability of him arising under the contract by virtue of the Supply of Services (Implied Terms) Ordinance.

REGULATORY OVERVIEW

Otherwise, where any right, duty or liability would arise under a contract for the supply of a service by virtue of the Supply of Services (Implied Terms) Ordinance, it may (subject to the Control of Exemption Clauses Ordinance) be negative or varied by express agreement, or by the course of dealing between the parties, or by such usage as binding on both parties to the contract.

CONTROL OF EXEMPTION CLAUSES

The Control of Exemption Clauses Ordinance (Chapter 71 of the Laws of Hong Kong) which aims to limit the extent to which civil liability for breach of contract, or for negligence or other breach of duty, can be avoided by means of contract terms and otherwise provides that:

- (i) under section 7, a person cannot by reference to any contract term or to a notice given to persons generally or to particular persons exclude or restrict his liability for death or personal injury resulting from negligence and in the case of other loss or damage, a person cannot exclude or restrict his liability for negligence except in so far as the term or notice satisfies the requirements of reasonableness;
- (ii) under section 8, as between contracting parties where one of them deals as consumer or on the other's written standard terms of business, as against that party, the other cannot by reference to any contract term (a) when himself in breach of contract, exclude or restrict any liability of his in respect of the breach, or (b) claim to be entitled to render a contractual performance substantially different from that which was reasonably expected of him, or (c) claim to be entitled in respect of the whole or any part of his contractual obligation, to render no performance at all, except in so far as the contract term satisfies the requirement of reasonableness;
- (iii) under section 9, a person dealing as a consumer cannot by reference to any contract term be made to indemnify another person in respect of liability that may be incurred by the other for negligence or breach of contract, except in so far as the contract term satisfies the requirement of reasonableness; and
- (iv) under section 11, as against a person dealing as consumer, the liability for breach of the obligations arising under section 15, 16 and 17 of the Sales of Goods Ordinance cannot be excluded or restricted by reference to any contract term, and as against person dealing otherwise than as consumer, the liability arising under section 15, 16 and 17 of the Sales of Goods Ordinance can be excluded or restricted by reference to a contract term, but only in so far as the terms satisfying the requirement of reasonableness.

Sections 7, 8 and 9 of the Control of Exemption Clauses Ordinance do not apply to any contract so far as it relates to the creation or transfer of a right or interest in any patent, trade mark, copyright, registered design, technical or commercial information or other intellectual property, or relates to the termination of any such right or interest. In relation to a contract term, the requirement of reasonableness for the purpose of the Control of Exemption Clauses Ordinance is satisfied only if the court or arbitrator determines that the term was a fair and reasonable one to be included having regard to the circumstances which were, or ought reasonably to have been, known to or in the contemplation of the parties when the contract was made.

REGULATORY OVERVIEW

COMPETITION

The Competition Ordinance (Chapter 619 of the Laws of Hong Kong) prohibits and deters undertakings in all sectors from adopting anti-competitive conduct which has the object or effect of preventing, restricting or distorting competition in Hong Kong. It provides for general prohibitions in three major areas of anti-competitive conduct described as the first conduct rule, the second conduct rule and the merger rule.

The first conduct rule prohibits undertakings from making or giving effect to agreements or decisions or engaging in concerted practices that have as their object or effect to prevent, restrict or distort competition in Hong Kong. The second conduct rule prohibits undertakings that have a substantial degree of market power in a market from engaging in conduct that has as its object or effect the prevention, restriction or distortion of competition in Hong Kong. The merger rule prohibits undertakings that, directly or indirectly, carry out mergers that have or are likely to have the effect of substantially lessening competition in Hong Kong. The scope of application of the merger rule is limited to carrier licences issued under the Telecommunications Ordinance (Chapter 106 of the Laws of Hong Kong).

Pursuant to section 82 of the Competition Ordinance, if the Competition Commission has reasonable cause to believe that (a) a contravention of the first conduct rule has occurred; and (b) the contravention does not involve serious anti-competitive conduct, it must, before bringing proceedings in the Competition Tribunal against the undertaking whose conduct is alleged to constitute the contravention, issue a notice (a “**warning notice**”) to the undertaking.

However, under section 67 of the Competition Ordinance, where the Competition Commission has reasonable cause to believe that a contravention of the first conduct rule has occurred and the contravention involves serious anti-competitive conduct or a contravention of the second conduct rule has occurred, it may, instead of bringing proceedings in the Competition Tribunal in the first instance, issue a notice (an “**infringement notice**”) to the person against whom it proposes to bring proceedings, offering not to bring those proceedings on condition that the person makes a commitment to comply with requirements of the infringement notice. “Serious anti-competitive conduct” means any conduct that consists of any of the following or any combination of the following — (a) fixing, maintaining, increasing or controlling the price for the supply of goods or services; (b) allocating sales, territories, customers or markets for the production or supply of goods or services; (c) fixing, maintaining, controlling, preventing, limiting or eliminating the production or supply of goods or services; and/or (d) bid-rigging.

In the event of the breaches of the Competition Ordinance, the Competition Tribunal may make orders including: imposing a pecuniary penalty if satisfied that an entity has contravened a competition rule; disqualifying a person from acting as a director of a company or taking part in the management of a company; prohibiting an entity from making or giving effect to an agreement; modifying or terminating an agreement; and requiring the payment of damages to a person who has suffered loss or damage.

REGULATORY OVERVIEW

CJF Limited is a member of the Hong Kong Jewellers' and Goldsmiths Association Limited. Since December 2015, the Hong Kong Jewellers' and Goldsmiths Association Limited has abandoned the practice of quoting the bid price and sell price of gold price, as the practice may amount to price fixing for the supply of gold. The Group has since then fixed the price for its gold with reference to prevailing market price taking into account the market position of the Group. As confirmed by the Directors, the Group has not reached or given effect to any agreement or engaged in any concerted practice the object or effect of which is to prevent, restrict or distort competition in Hong Kong.

REGISTERED DESIGNS

Section 5(1) of the Registered Designs Ordinance (Chapter 522 of the Laws of Hong Kong) provides that a design which is new may, upon application by the person claiming to be the owner, be registered in respect of any article or set of articles specified in the application.

By virtue of section 31(1) of the Registered Designs Ordinance and subject to other provisions of the Registered Designs Ordinance, the registration of a design under the Registered Design Ordinance gives to the registered owner the exclusive right:

- (i) to make in Hong Kong or import into Hong Kong (A) for sale or hire; or (B) for use for the purpose of trade or business; or
- (ii) to sell, hire, or offer or expose for sale or hire in Hong Kong,

any article in respect of which the design is registered and to which that design or a design not substantially different from it has been applied.

The exclusive right of the registered owner of a design under the Registered Designs Ordinance is subject to, among others, the right of third parties under section 35 of the Registered Designs Ordinance. If a person who in Hong Kong before the filing date of an application for registration of a design (i) does in good faith an act which would have constituted an infringement of the design if it had been registered at the time the act is done; or (ii) makes in good faith effective and serious preparations to do such an act, he has the following rights as prescribed under section 35(2) of the Registered Design Ordinance:

- (i) the right to continue to do or, as the case may be, to do such an act or to make in good faith effective and serious preparations to do such an act;
- (ii) if such act was done, or such preparations had been made, by an individual in the course of a business:
 - (a) the right to assign the right to do the act or to transmit such right on death; and
 - (b) the right to authorise the doing of the act by any of his partners for the time being in the business in the course of which the act was done or the preparations had been made; and

REGULATORY OVERVIEW

- (iii) if such act was done, or such preparations had been made, by a body corporate in the course of a business, the right to assign the right to do the act or to transmit such right on the body's dissolution.

Despite section 31(2) of the Registered Designs Ordinance (as discussed below), the exercise of such right as conferred on the third parties by virtue of section 35(2) of the Registered Designs Ordinance shall not constitute an infringement of the design concerned.

Infringement of Registered Designs

Section 31(2) of the Registered Designs Ordinance sets out the circumstances in which the right in a registered design is infringed. Any person who, without the consent of the registered owner and while the registration is in force:

- (i) does anything which by virtue of section 31(1) of the Registered Designs Ordinance is the exclusive right of the registered owner;
- (ii) makes anything for enabling any article referred to in section 31(1) of the Registered Designs Ordinance to be made in Hong Kong or elsewhere;
- (iii) does anything in relation to a kit, i.e. a complete or substantially complete set of components intended to be assembled into an article, that would constitute an infringement of the design if it had been done in relation to the assembled article; or
- (iv) makes anything for enabling a kit to be made or assembled, in Hong Kong or elsewhere, if the assembled article would be such an article as is referred to in section 31(1) of the Registered Designs Ordinance.

As at the Latest Practicable Date, the Group had no design the registration of which is in force under the Registered Designs Ordinance, nor has it made any application for registration of designs in or in respect of any articles sold by it; and no member of the Group was involved in any litigation, claim or arbitration of material importance and no litigation, claim or arbitration of material importance is known to the Directors as pending or threatened against any member of the Group in respect of any rights and ownership of any registered design.

INLAND REVENUE ORDINANCE

Section 51(1) of the Inland Revenue Ordinance requires every person, upon receipt of a written notice from the Inland Revenue Department, to submit a return within a reasonable time as stated in such notice.

REGULATORY OVERVIEW

In relation to (i) any tax computation containing incorrect information (the “**Incorrect Information**”); and (ii) the filing of tax return containing the Incorrect Information, a person may be subject to the following:

- (i) Prosecutions under section 80(2) or 82(1) of the Inland Revenue Ordinance:
 - (a) Any person who without reasonable excuse files an incorrect return commits an offence under section 80(2) of the Inland Revenue Ordinance and is liable on conviction to a fine at level 3 (i.e. HK\$10,000) and a further fine of treble the amount of tax which has been undercharged as a result of the incorrect return, statement or information, or would have been so undercharged if the return, statement or information had been accepted as correct.
 - (b) Any person who willfully with intent to evade or to assist any other person to evade tax omits from a return any sum which should be included commits an offence under section 82(1) of the Inland Revenue Ordinance is liable:
 - (i) on summary conviction to a fine at level 3 (i.e. HK\$10,000), a further fine of treble the amount of tax which has been undercharged in consequence of the offence or which would have been undercharged if the offence has not been detected and imprisonment for 6 months; and
 - (ii) on indictment to a fine at level 5 (i.e. HK\$50,000), a further fine of treble the amount of tax which has been undercharged in consequence of the offence or which would have been undercharged if the offence has not been detected and imprisonment for 3 years.
 - (c) Under sections 80(5) and 82(2) of the Inland Revenue Ordinance, the Commissioner of Inland Revenue may compound any offence in lieu of prosecution.
 - (d) Under section 82A of the Inland Revenue Ordinance, any person who without reasonable excuse makes an incorrect return by omitting or understating anything in respect of which he is required to make a return, shall, if no prosecution under section 80(2) or 82(1) has been instituted in respect of the same facts, be liable to be assessed to additional tax of an amount not exceeding treble the amount of tax undercharged as a result of the filing of the incorrect tax return.

REGULATORY OVERVIEW

The Inland Revenue Department's website sets out the following penalty policy for section 82A of the Inland Revenue Ordinance:

Nature of Omission/ Understatement (see Note 1 below)	Category of Disclosure and Work Involved							
	Full Voluntary Disclosure		Disclosure with FULL Information Promptly on Challenge		Incomplete or Belated Disclosure		Disclosure Denied	
	Normal Loading	Max. incl. C.R.	Normal Loading	Max. incl. C.R.	Normal Loading	Max. incl. C.R.	Normal Loading	Max. incl. C.R.
	15	60	75	100	140	180	210	260
Group (a)	15	60	75	100	140	180	210	260
Group (b)	10	45	50	75	110	150	150	200
Group (c)	5	30	35	60	60	100	100	150

Notes:

- Group (a)** - cases where the taxpayers show intentional disregard to the law and adopt deliberate cover-up tactics involving the preparation of a false set of books, padded wage rolls and fictitious entries or multiple omissions over a long period of time.

Group (b) - cases with slightly less serious acts of omission resulting from recklessness including the "hand in the till" type of evasion, failure to bring to account sales of scrap, and sheer gross negligence.

Group (c) - cases where the taxpayers fail to exercise reasonable care and omit profits/ income such as lease premium, one-off commission, etc.
- The penalty loading is expressed as a percentage of the tax undercharged.
- For cases completed after 30 November 2003, the CR (commercial restitution) is at 7% per annum monthly compounded for periods up to and including 30 November 2003 and at the best lending rate monthly compounded for periods after 30 November 2003.

Additionally, Section 51C of the Inland Revenue Ordinance provides that any person carrying on a trade, profession or business in Hong Kong shall keep sufficient records in the English or Chinese language of his income and expenditure to enable the assessable profits of such trade, profession or business to be readily ascertained and shall retain such records for a period of not less than 7 years after the completion of the transactions, acts or operations to which they relate. The section sets out general requirement of records that should be kept. Any person who without reasonable excuse fails to comply with Section 51C is liable on conviction to a maximum fine of HK\$100,000.

LAWS AND REGULATIONS RELATING TO TRANSFER PRICING

Section 20A of the Inland Revenue Ordinance gives the IRD wide powers to collect tax due from non-residents. The IRD may also make transfer pricing adjustments by disallowing expenses incurred

REGULATORY OVERVIEW

by the Hong Kong resident under sections 16(1), 17(1)(b) and 17(1)(c) of the Inland Revenue Ordinance, make additional assessments under section 60 of the Inland Revenue Ordinance and challenging the entire arrangement under general anti-avoidance provisions such as sections 61 and 61A of the Inland Revenue Ordinance.

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

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

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

- Codify arm’s length principle for related party transactions;
- Introduce transfer pricing documentation in Hong Kong, which includes country-by-country report, master file and local file;
- Codify Advance Pricing Arrangement (“**APA**”) regime and extend application to unilateral APAs;
- Introduce legal framework for mutual agreement procedures, which includes arbitration.

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

Note: An APA is an ahead-of-time agreement between a taxpayer and a tax authority on the application of the arm’s length principle to the relevant related party transactions of the taxpayer over a fixed period of time.

IMPORT AND EXPORT OF ROUGH DIAMONDS

The Kimberley Process Certification Scheme (the “**KPCS**”) for rough diamonds has been developed by the Kimberley Process, an international negotiating forum that seeks to stop trading in “conflict diamonds” from fuelling armed conflicts, activities of rebel movements and illicit proliferation of armament. The Trade and Industry Department and the Customs and Excise Department of Hong Kong is the designated importing and exporting authorities to implement the KPCS in Hong Kong. According to Regulations 6DB of the Import and Export (General) Regulations

REGULATORY OVERVIEW

(Chapter 60 of the Laws of Hong Kong, subsidiary legislation A), no person shall carry on a business of importing, exporting, buying, selling or carrying rough diamonds, unless he is a registered rough diamond trader, save and except such person carries out on a business of carrying rough diamonds and he is an owner of a vessel, aircraft or vehicle; and is required to comply with the requirements applicable to an owner of a vessel, aircraft or vehicle under Import and Export Ordinance (Chapter 60 of the Laws of Hong Kong). Besides under the Import and Export Ordinance and its subsidiary legislation, the imports and exports of rough diamonds must be covered by valid Kimberley Process Certificates (Import) and Kimberley Process Certificates (Export) respectively issued by the Director-General of Trade and Industry.

The Directors confirm that the Group does not engage in the import or export of rough diamonds in Hong Kong or the PRC. Therefore, our business operations are not subject to enforcement of KPCS under Hong Kong laws or the PRC laws.

COMPLIANCE WITH THE RELEVANT REQUIREMENTS

As confirmed by the Directors, the Group has obtained all necessary permits, approvals and licences to operate its existing business in Hong Kong from relevant governmental bodies since its establishment, and the Group complies in all material respects with all applicable laws, regulations, rules, codes and guidelines in Hong Kong which are material to the business and operations of the Group during the Track Record Period and up to the Latest Practicable Date.

REGULATORY REQUIREMENTS IN THE PRC

This section is a summary of the key PRC laws and regulations relating to the business and operations carried out by the Group.

PRC LAWS AND REGULATIONS RELATING TO FOREIGN INVESTMENT

(1) The Establishment, Operation and Management of Foreign-Invested Enterprises

According to the Company Law of the PRC (《中華人民共和國公司法》) (the “**Company Law**”), effected on 1 July 1994, revised on 25 December 1999, 28 August 2004, amended on 27 October 2005 and revised on 28 December 2013, unless laws on foreign investments provide otherwise, the Company Law shall be applicable to foreign-invested companies with limited liability and such companies limited by shares.

According to the Law of the PRC on Wholly Foreign-owned Enterprises (《中華人民共和國外資企業法》) (the “**Law on WFOE**”), effected on 12 April 1986 and revised on 31 October 2000 and 3 September 2016, and its Implementing Rules (《中華人民共和國外資企業法實施細則》) (the “**Implementing Rules**”), effected on 12 December 1990 and amended on 12 April 2001 and 19

REGULATORY OVERVIEW

February 2014, the establishment, registered capital, financial affairs and accounting, tax and foreign exchange of foreign investment enterprise shall be governed by this law and its implementing rules.

Moreover, the foreign investment enterprise shall be governed by the Provisions for Guiding the Foreign Investment Direction (《指導外商投資方向規定》), effected on 1 April 2002, the Administrative Measures for the Approval and Record-filing of Foreign-invested Projects (《外商投資項目核准和備案管理辦法》), effected on 17 June 2014 and revised on 27 December 2014, the Interim Administrative Measures for the Record-filing of the Incorporation 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》), effected on 8 October 2016 and amended on 30 July 2017 and 30 June 2018, the Catalogue for the Guidance of Foreign Investment Industries (《外商投資產業指導目錄》) (the “**Catalogue**”), last amended on 28 July 2017 and partly repealed by the Special Management Measures (Negative List) for the Access of Foreign Investment (2018) (《外商投資准入特別管理措施(負面清單)(2018年版)》) on 28 July 2018 and other applicable laws and regulations.

(2) Catalogue for the Guidance of Foreign Investment Industries

According to the Provisions for Guiding the Foreign Investment Direction (《指導外商投資方向規定》), projects with foreign investment fall into 4 categories, namely encouraged, permitted, restricted and prohibited ones. Projects with foreign investment that are encouraged, restricted and prohibited shall be listed in the Catalogue. And projects with foreign investment that don't fall into the categories of encouraged, restricted or prohibited projects shall be the permitted projects with foreign investment, which shall not be listed in the Catalog. Investments by Foreign investors and foreign-invested enterprises in China are subject to the Catalog. The fine jewelry manufacturing industry should fall within the permitted category.

(3) PRC Laws and Regulations Relating to Dividend Distributions

According to the Company Law, and the Law on WFOE, and its Implementing Rules, wholly foreign-owned enterprises shall make allocations to reserve funds and to bonus and welfare funds for their employees from their profits after paying income tax in accordance with China's tax laws. The allocations made to the reserve fund of an enterprise shall be no lower than 10% of the enterprise's after-tax profits; when the total amount of funds so allocated is equal to or greater than 50% of the enterprise's registered capital, no further allocations shall be made. Wholly foreign-owned enterprises shall independently determine their allocation rates to bonus and welfare funds for employees. Wholly foreign-owned enterprises shall not distribute any profits until any losses from prior fiscal years have been offset. Profits retained from prior fiscal years may be distributed together with distributable profits from the current fiscal year.

PRC LAWS AND REGULATIONS RELATING TO WORK SAFETY

According to the Work Safety Law of the PRC (《中華人民共和國安全生產法》), effected on 1 November 2002 and revised on 27 August 2009 and 31 August 2014, production and business entities shall abide by this Law and other laws and regulations concerning work safety, redouble their efforts to ensure work safety by setting up and improving the responsibility system for work safety and work safety rules and regulations, improving the conditions, pushing forward the development of work

REGULATORY OVERVIEW

safety standards, and raising the work safety level for it to guarantee work safety. The production and business operation entities shall be informed of the conditions for safe production as provided in this Law and other relevant laws, administrative regulations, national standards, and industrial standards. Any entity that has not been informed of the conditions for safe production may not engage in production and business operation activities.

According to the Fire Protection Law of the PRC (《中華人民共和國消防法》), effected on 1 September 1998 and amended on 1 May 2009, with respect to construction projects which require fire protection designs according to the national fire protection technical standards for construction projects, unless otherwise provided for under Article 11 of this Law, the project owners shall, within seven business days of obtaining construction permits in accordance with the law, submit the fire protection design documents to the fire protection departments of the public security authority for their records, and such departments shall conduct a random inspection thereof. With respect to construction projects which require fire protection design according to national fire protection technical standards for construction work, unless otherwise provided for under Article 11 of this Law, the project owners shall, after an acceptance check, report its results to the fire protection departments of public security authority for their records and such departments shall conduct a random inspection thereof.

According to the Administrative Regulations on Precursor Chemicals (《易制毒化學品管理條例》), effected on 1 November 2005 and amended on 29 July 2014 and 6 February 2016 and 6 November 2017, the state applies the classified administration and licensing system to the production, distribution, purchase, transportation and import and export of precursor chemicals. An entity that is to purchase any precursor chemical in Category II or III shall, prior to the purchase, report the type and quantity in demand for record, with the public security authority of the local people's government at the county level.

According to the Measures for Declaration of Project with Occupational Hazards (《職業病危害項目申報辦法》), effected on 1 June 2012, in case where the working place (excluding coal mining companies) has occupational hazards factors as listed on the catalog of occupational diseases, the enterprise shall declare to the local administration of work safety of such occupational hazards in a timely and faithful manner and shall be subject to the supervision and administration of such local administration of work safety. The competent administration of work safety shall issue the Receipt to the Declaration of Projects with Occupational Hazards after receiving the documents and information within 5 business days.

PRC LAWS AND REGULATIONS RELATING TO PRODUCT QUALITY

According to the General Principles of the Civil Law of the PRC (《中華人民共和國民法通則》), effected on 1 January 1987 and revised on 27 August 2009, if any defective products sold cause any property losses or personal injuries to consumers, the manufacturers and distributors should be liable for compensation.

According to the Product Quality Law of the PRC (《中華人民共和國產品質量法》), effected on 1 September, 1993 and revised on 8 July 2000 and amended on 27 August 2009, the illegal proceeds from manufacturing or sales of any defective products may be confiscated and the business license of such manufacturers or distributors may be revoked; and if the case constitutes a crime, criminal liability shall be investigated in accordance with the law.

REGULATORY OVERVIEW

The Law of the PRC on the Protection of the Rights and Interests of Consumers (《中華人民共和國消費者權益保護法》), effected on 1 January 1994 and revised on 27 August 2009 and 25 October 2013, is aimed to protect the legitimate rights and interests of consumers to purchase or use any commodities or receive any services and all business operators, when providing consumers with the commodities produced or sold by them or services, must abide by such Law. A consumer, in purchasing or using goods or receiving services, shall be entitled to the inviolability of his personal and property safety, and to know the true information of the goods he purchases or uses or the service he receives. If any personal injuries or property losses are suffered as a result of any defective commodities, a consumer or other injured parties may require the seller or the manufacturers to compensate. If the liability is with the manufacturers, the sellers shall, after paying the compensations, have the right to claim compensations from the manufacturers; if the liability is with the sellers, the manufacturers shall, after paying the compensations, have the right to claim compensations from the sellers.

According to the Tort Law of the PRC (《中華人民共和國侵權責任法》), effected on 1 July 2010, producers shall bear tortious liability for damage caused to others by their defective products and the injured party may seek compensation from either the producer or the seller for damage caused by defective products. Where the product defect is caused by the producer, the seller may, after paying compensation, claim the same from the producer. Where the product defect is caused by the seller, the producer may, after paying compensation, claim the same from the seller. Where the product defect is caused by the transporter, the warehouse or another third party, the producer and the seller may, after paying compensation, claim the same from the third party. If any producer or seller knowingly produces or sells defective products that cause death or serious damage to the health of others, the injured party may claim appropriate punitive damages.

PRC LAWS AND REGULATIONS RELATING TO TAXATION

(1) Value-Added Tax (“VAT”)

According to Interim Value-Added Tax Regulations of the PRC (《中華人民共和國增值稅暫行條例》), effected on 1 January 1994 and amended on 10 November 2008, 6 February 2016 and 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》) effected on 25 December 1993 and amended on 15 December 2008 and 1 November 2011, entities and individuals selling goods, providing labor services of processing, repairs or maintenance, or selling services, intangible assets or real property in China, or importing goods to China, shall be identified as taxpayers of VAT, and except stipulated otherwise, the tax rate shall be 17%. Small-scale taxpayers shall be subject to the 3% VAT rate, unless otherwise stipulated by the State Council.

According to Circular on Comprehensively Promoting the Pilot Program of the Collection of Value-added Tax in Lieu of Business Tax (《財政部、國家稅務總局關於全面推開營業稅改征增值稅試點的通知》), effected on 1 May 2016, entities and individuals engaged in sales of services, intangible assets or real property within the territory of the PRC are value-added taxpayers, and shall pay VAT rather than business tax according to this Circular.

REGULATORY OVERVIEW

According to Circular on Value-Added Tax and Consumption Tax Policies on 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》), effected on 1 July 2012, when the manufacturing enterprise is exporting self-produced goods, the goods deemed as self-produced goods or providing foreign processing, repair and fitting services, VAT shall be exempted or refunded.

(2) Enterprise Income Tax (“EIT”)

Under the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法》), effected on 1 January 2008, and revised on 24 February 2017, and its Implementing Rules (《中華人民共和國企業所得稅法實施條例》), effected on 1 January 2008, resident enterprises are enterprises that are set up in China in accordance with the law, or that are set up in accordance with the law of the foreign country (region) whose actual administration institution is in China; non-resident enterprises are enterprises which are set up in accordance with the law of a foreign country (region) and whose actual administrative institution is not in China, but which have institutions or establishments in China, or which have no such institutions or establishments but have income generated from inside China. Resident enterprises shall pay EIT in relation to their income originating both within and outside China at the rate of 25%. Non-resident enterprises that have set up institutions or establishments in China shall pay EIT in relation to income originating from China obtained by the set up institutions or establishments, and income occurring outside China but having an actual connection with the set-up institutions or establishments at the rate of 25%. Where non-resident enterprises have not set up any institutions or establishments in China, or have set up institutions or establishments but the income obtained by the said enterprises has no actual connection with the set-up institutions or establishments shall pay EIT in relation to their income originating from China at the rate of 10%.

(3) Related-Party Transaction and Transferring Price

According to the EIT Law of the PRC and its Implementing Rules, Law of the People’s Republic of China on the Administration of Tax Collection (《中華人民共和國稅收徵收管理法》), effected on 1 January 1993, revised on 28 February 1995, amended on 28 April 2001, and revised on 29 June 2013 and 24 April 2015, and its Implementing Rules (《中華人民共和國稅收徵收管理法實施細則》), effected on 15 October 2002, amended on 9 November 2012 and 6 February 2016, the receipt or payment of prices or fees in business transactions between institutions or sites engaging in production or business operations established in China by enterprises or foreign enterprises and their associated enterprises shall follow the arm’s length principle. Where the receipt or payment of prices or fees does not follow the arm’s length principle and results in a reduction of taxable income, the tax authorities shall have the right to make reasonable adjustments.

According to Announcement of the State Administration of Taxation on Relevant Matters relating to Improvement of the Filing of Related-Party Transactions and the Management of Contemporaneous Documentation, effected on 29 June 2016 (“**No. 42 Announcement**”), any resident enterprise subject to audit collection and any non-resident enterprise which has establishments or offices in China and honestly reports and pays enterprise income tax shall, in filing a tax return for the annual enterprise income tax with a tax authority, make related filings with regard to its business transactions with any

REGULATORY OVERVIEW

related party and attach thereto the Annual Report on the Related-party Transactions of Enterprises of the PRC. Enterprises shall prepare contemporaneous documentation based on a tax year, and submit contemporaneous documentation for the related-party transactions according to the requirements of tax authorities.

Contemporaneous documentation includes a master file, a local file and a special issue file. No. 42 Announcement regulates the documentation, waiver and time duration of retaining for the contemporaneous documentation.

PRC LAWS AND REGULATIONS RELATING TO ENVIRONMENT PROTECTION

According to the Environmental Protection Law of the PRC (《中華人民共和國環境保護法》), effected on 26 December 1989 and amended on 1 January 2015, for preparation of the relevant development and utilisation plans and construction of environment-affected projects, the environmental impact assessment shall be conducted according to law. Any development and utilisation plan without the environmental impact assessment conducted according to law may not be organised for implementation; any construction project without the environmental impact assessment conducted according to law may not start construction. The pollution prevention and control facilities in construction projects shall be designed, built and commissioned along with the principal part of the project at the same time. The pollution prevention and control facilities shall meet the requirements specified in the approved documents regarding the environmental impact assessment and shall not be dismantled or left idle without authorisation. Enterprises and institutions and other producers and operators that discharge pollutants shall take measures to prevent and control pollution and other hazards caused to the environment by waste gas, waste water, waste residues, medical wastes, dust, malodorous gases, radioactive substances, noise, vibration and optical and electromagnetic radiation generated in the course of production, construction or other activities. Enterprises and public institutions that discharge pollutants shall establish an environmental protection responsibility system and specify the responsibilities of the persons-in-charge of the entities and the relevant personnel. The State implements the pollution discharge license management system in accordance with the law. Enterprises, public institutions and other producers and operators that implement the pollution discharge license management shall discharge pollutants according to the requirements of the pollution discharge license; those that fail to obtain the pollution discharge license shall not discharge pollutants.

According to the Law of the PRC on Environment Impact Assessment (《中華人民共和國環境影響評價法》), effected on 1 September 2003 and revised on 1 September 2016, the Administrative Regulations on the Environmental Protection of Construction Projects (《建設項目環境保護管理條例》), effected on 29 November 1998 and revised on 1 October 2017, the Category-based Administration Catalogue for the Environmental Impact Assessment of Construction Projects (《建設項目環境影響評價分類管理名錄》), effected on 1 October 2008, and amended on 1 June 2015, 1 September, 2017 and 28 April 2018, the State implements a classification-based management on the Environment Impact Assessment (“EIA”) of construction projects according to the impact of the construction projects on the environment. Construction units shall prepare the Environmental Impact Report (“EIR”) or Environmental Impact Statement (“EIS”) or fill out the Environmental Impact Registration Form (hereinafter collectively referred to as the “EIA documents”) according to the following rules: 1. For projects with potentially serious environmental impacts, an EIR shall be

REGULATORY OVERVIEW

prepared to provide a comprehensive assessment of their environmental impacts; 2. For projects with potentially mild environmental impacts, an EIS shall be prepared to provide an analysis or specialised assessment of their environmental impacts; and 3. For projects with very small environmental impacts so that an EIA is not required, an Environmental Impact Registration Form shall be filled out. The EIR or EIS of a construction project shall be submitted by the construction unit in accordance with the regulations of the State Council to the administrative department for environmental protection with powers to approve the project for review and approval. Where the EIA documents of a construction project have not been submitted for review in accordance with the law or approved upon review by the approval authority, the construction unit shall not start construction of the project. After the construction of a construction project for which an EIR or EIS is prepared and completed, the construction unit shall make an acceptance check of the matching environmental protection facilities and prepare an acceptance report according to the standards and procedures stipulated by the competent administrative department of environmental protection under the State Council. For construction projects that are built in phases, go into production or are delivered for use in phases, acceptance checks for their corresponding environmental protection facilities shall be conducted in phases.

According to the Law of PRC on the Prevention and Control of Water Pollution (《中華人民共和國水污染防治法》), effected on 1 November 1984, amended on 28 February, 2008, and revised on 15 May, 1996 and 27 June, 2017, the Law of PRC on the Prevention and Control of Environmental Pollution Caused by Solid Waste (《中華人民共和國固體廢物污染環境防治法》), effected on 1 April, 1996, amended on 29 December, 2004, and revised on 29 June, 2013, 24 April, 2015, and 7 November, 2016, the Law on the Prevention and Control of Atmospheric Pollution (《中華人民共和國大氣污染防治法》), effected on 1 June, 1988, revised on 29 August, 1995 and amended on 29 April, 2000 and 29 August, 2015, and the Law of PRC on the Prevention and Control of Environmental Noise Pollution (《中華人民共和國環境噪聲污染防治法》), effected on 1 March, 1997, the environmental pollution prevention and control facilities of construction projects shall be simultaneously designed, constructed and put into use together with main buildings. The environmental pollution prevention and control facilities shall be subject to the requirements of environmental impact assessment documents approved or filed for the record. The enterprises, public institutions or other manufacturers and operators shall obtain a pollution discharge permit to discharge pollutants and report to the competent administrative department of environmental protection for registration. Enterprises and institutions and other producers and operators that discharge pollutants shall abide by the state or local standards for discharge of water, waste, air, noise and other pollutants.

PRC LAWS AND REGULATIONS RELATING TO LABOR PROTECTION AND SOCIAL INSURANCE

According to the Labor Law of the PRC (《中華人民共和國勞動法》), effected on 1 January, 1995 and revised on 27 August, 2009, the Labor Contract Law of the PRC (《中華人民共和國勞動合同法》), effected on 1 January, 2008 and revised on 1 July, 2013 and the Regulations on the Implementation of the Labor Contract Law of the PRC (《中華人民共和國勞動合同法實施條例》), effected on 18 September, 2008, an employer must enter into a written labor contract with any employees and the wages must not be lower than the local standards of minimum wages. In addition, an employer must create a system related to occupational health and safety, provide job training for employees to avoid occupational hazards and protect the rights of employees. The Employer shall truthfully advise the

REGULATORY OVERVIEW

employee of the scope of work, the working conditions, the place of work, occupational hazards, production safety conditions, labor compensation and other matters requested by the employee; the Employer shall be entitled to know the basic information of the employee that directly relates to the labor contract, and the employee shall truthfully provide the same.

According to Work Safety Law of the PRC (《中華人民共和國安全生產法》), the employment contracts entered into between the production and business operations and the employees must include stipulations regarding the guarantee of the labor safety for the employees, the avoidance of vocational injuries, and the purchase of work-related injury insurance for the employees according to the law.

According to the Social Insurance Law of the PRC (《中華人民共和國社會保險法》), effected on 1 July 2011, Interim Regulations on Levying Social Insurance Premiums (《社會保險費徵繳暫行條例》), effected on 22 January 1999, the Provisional Measures on Maternity Insurance of Enterprise Employees (《企業職工生育保險試行辦法》), effected on 1 January 1995, the Regulations on Unemployment Insurance (《失業保險條例》), effected on 22 January 1999, and the Regulations on Work Related Injuries (《工傷保險條例》), effected on 1 January 2004 and amended on 1 January, 2011, an employer must make contributions to a number of social security funds for its employees, including the basic pension insurance, basic medical insurance, maternity insurance, unemployment insurance and work-related injury insurance.

According to Administrative Regulations on the Housing Provident Fund (《住房公積金管理條例》), effected on 3 April, 1999 and amended on 24 March 2002, an employer must set up a housing fund account with the department responsible for the management of housing fund for its employees and make contributions to such housing fund.

PRC LAWS AND REGULATIONS RELATING TO THE FOREIGN EXCHANGE CONTROL

RMB is the legal currency of the PRC and is not freely convertible due to foreign currency control. The State Administration of Foreign Exchange of the PRC is responsible for all matters related to foreign exchange, including the implementation of foreign exchange control regulations.

According to the Administrative Regulation on Foreign Exchange Settlement, Sales and Payment (《結匯、售匯及付匯管理規定》), effected on 1 July 1996, for foreign exchange derived from current account transactions for enterprises with foreign investment, they may open foreign exchange settlement accounts at the banks involved in foreign exchange business at their own discretion in their incorporation location subject to approval.

According to the Administrative Regulations of the PRC on Foreign Exchange (《中華人民共和國外匯管理條例》), effected on 1 April 1996 and amended on 14 January 1997 and 5 August 2008, current account foreign exchange income may, in accordance with relevant provisions of the state, be retained or sold to any financial institution engaged in foreign exchange settlement and sales business. Where any foreign exchange income on capital account is to be retained or sold to a financial institution engaged in foreign exchange settlement and sales business, an approval shall be obtained from the relevant foreign exchange administrative authority, other than where no approval is required under state provisions.

REGULATORY OVERVIEW

According to the Circular of the State Administration of Foreign Exchange on Further Improving and Adjusting the Direct Investment Foreign Exchange Administration Policies (《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》), effected on 17 December 2012 and amended on 4 May 2015, the administrative examination and approval procedures are substantially simplified and the approval for opening of and account entry in, foreign exchange accounts under the direct investment is canceled. Instead, the banks shall handle the account opening formalities for relevant account-opening subjects based on the information registered in the relevant operation system of the administration of foreign exchange.

According to the Circular of the State Administration of Foreign Exchange on Reforming the Management Approach regarding the Settlement of Foreign Exchange 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金結匯管理方式的通知》), effected on 1 June 2015, the foreign exchange capital of foreign-invested enterprises shall be subject to the discretionary foreign exchange settlement, and the capital in RMB obtained by foreign-invested enterprises from the discretionary settlement of foreign exchange capital shall be managed under the account pending for foreign exchange settlement payment.

PRC LAWS AND REGULATIONS RELATING TO THE CUSTOMS REGISTRATION AND IMPORTED AND EXPORTED COMMODITIES INSPECTION

According to the Administrative Provisions of the Customs of the PRC on the Registration of Customs Declaration Entities (《中華人民共和國海關報關單位註冊登記管理規定》), effected on 13 March, 2014 and amended on 20 December 2017 and 29 May 2018, the registration of customs declaration entities comprises the registration of the customs declaration enterprise and the registration of the consignor or consignee of imported and exported goods. Only after obtaining approval to become registered from the local Customs directly under the General Administration of Customs or the subordinate Customs authorised thereby may the customs declaration enterprise complete the customs declaration procedure. The consignor or consignee of imported and exported goods may complete the registration procedure with their local Customs. The registration of customs declaration entities shall obtain the Certificate of the Customs of the PRC on the Registration of Customs Declaration Entities after being approved by the administration of the customs. Unless otherwise provided by the Customs, the Certificate of the Customs of the PRC on the Registration of Customs Declaration Entities of the consignors and consignees of imported and exported goods shall be effective permanently. Besides, A customs declaration entity shall submit the Annual Report of Customs Declaration Entities in respect of Registration Information to the Customs where such entity registers before June 30 each year.

According to the Law of PRC on Imported and Exported Commodities Inspection (《中華人民共和國進出口商品檢驗法》), effected on 1 August 1989, revised on 28 April 2002, on 29 June 2013 and 27 April 2018, and its Implementing Rules (《中華人民共和國進出口商品檢驗法實施條例》), effected on 1 December 2005, amended on 18 July 2013, 6 February 2016 and 1 March 2017, the State administration for commodity inspection compiles and readjusts the Catalogue of import and export commodities subject to compulsory inspection and the inspection of the import and export commodities which are listed in the Catalogue shall be conducted by the commodity inspection authorities. For export commodities which are subject to inspection by the commodity inspection authorities, as provided for by this Law, the consigner or his agent shall, in the places and within the

REGULATORY OVERVIEW

time limit specified by the commodity inspection authorities, apply for inspection to the commodity inspection authorities. No commodities listed in the Catalogue that fail to pass the inspection may be exported. For the import and export commodities other than those that are subject to inspection by the commodity inspection authorities, the commodity inspection authorities may conduct random inspection in accordance with State regulations. The consignees or consigners of the imported and exported commodities may go through formalities of application for inspection by themselves, or may entrust an agency inspection application enterprise to go through formalities of application for inspections. The consignees or consigners of imported and exported commodities shall, when going through formalities of application for inspection, put this on archives at the entry-exit inspection and quarantine institutions according to law.

PRC LAWS AND REGULATIONS RELATING TO FOREIGN TRADE

According to the Foreign Trade Law of PRC (《中華人民共和國對外貿易法》), effected on 1 July, 1994, amended on 6 April 2004 and 7 November 2016 and the Measures for Archival Filing and Registration of Foreign Trade Business Operators (《對外貿易經營者備案登記辦法》), effected on 1 July 2004 and amended on 18 August 2016. Any foreign trade business operator undertaking the import or export of goods or technology shall go through the record filing and registration process with the Ministry of Commerce of the People's Republic of China (the "MOC") or institutions entrusted by the MOC. In case a foreign trade business operator fails to go through the record filing and registration process according to these Measures, customs shall not handle the formalities for import/export declaration of release.

PRC LAWS AND REGULATIONS RELATING TO THE REAL ESTATE LEASING

According to the Administrative Measures for Commodity Housing Tenancy (《商品房屋租賃管理辦法》), effected on 1 February 2011, housing tenancy shall be conducted in accordance with the principle of equality, free will, legality, honesty and good faith. The parties concerned to a housing tenancy shall sign a tenancy contract in accordance with applicable laws and administrative regulations. The parties concerned to a housing tenancy shall go through the housing tenancy registration formalities with the competent construction (real estate) departments of the municipalities directly under the Central Government, cities and counties where the housing is located within 30 days after the housing tenancy contract is signed.

HISTORY, DEVELOPMENT AND REORGANISATION

BUSINESS MILESTONES

The following table summarises the key business milestones of business development since the Group's inception:

Year	Event
1997	CFJ Limited commenced business as a jewellery retailer
1997	CFJ Limited received the Quality Gold Mark granted by the Hong Kong Jewellers' and Goldsmiths' Association Limited
2000	CFH Limited commenced business in sourcing precious metals and jewellery products to group companies
2003	Establishment of Jinsen Factory for manufacturing precious metal products to the Group
2005	CFJ Limited received the Quality Tourism Services Scheme Certification Mark granted by the Hong Kong Tourism Board
2011	Cessation of business of Jinsen Factory and replacement by ZHJ Limited
	WR Limited commenced business in wholesale of diamond and gem-set jewellery products
2012	KJJ Limited commenced business in wholesale of pearl-set jewellery products

OVERVIEW

The Company was incorporated in the Cayman Islands on 11 January 2018 and became the holding company of the Group's subsidiaries upon completion of the Reorganisation. The Company has been registered in Hong Kong under Part 16 of the Companies Ordinance as a registered non-Hong Kong company on 23 March 2018. The Group comprises subsidiaries in BVI, Hong Kong and the PRC. For further details of the Group's corporate structure, please refer to the sub-section headed "Reorganisation" in this section.

HISTORY AND CORPORATE DEVELOPMENT

The Company

The Company was incorporated in the Cayman Islands on 11 January 2018. Upon completion of the Reorganisation, the Company became the investment holding company of the Group, details of which are set out in the sub-section headed "Reorganisation" in this section.

HISTORY, DEVELOPMENT AND REORGANISATION

CFJ Limited

CFJ Limited was incorporated under the laws of Hong Kong on 14 March 1997 with limited liability under its former name of “Selsen Enterprises Limited (迅聲企業有限公司)”. CFJ Limited is one of the Group’s operating subsidiaries, which principally engages in retail sales of precious metal and jewellery products and has commenced its business since September 1997. On 1 September 1997, CFJ Limited changed its name from “Selsen Enterprises Limited (迅聲企業有限公司)” to “Chong Fai Jewellery & Gold Company Limited (創輝珠寶金行有限公司)”.

On the date of its incorporation, 2 shares of CFJ Limited were allotted and issued to two initial subscribers, Snatch Prize Limited and Boxing Company Limited, who are company service providers. On 22 August 1997, the 2 shares of CFJ Limited were transferred from Snatch Prize Limited and Boxing Company Limited to Mr. Tsoi Sui Yan and Mr. Fu, respectively, at a consideration of HK\$1 each.

Subsequently on 22 August 1997, CFJ Limited allotted and issued shares as follows:

Shareholder	Number of shares	Consideration
Mr. Fu	1,999	HK\$1.00 per share
Mr. Kwok Ying Ming ^{Note}	1,400	HK\$1.00 per share
Mr. Tsoi Sui Yan ^{Note}	1,399	HK\$1.00 per share
Mr. Tang Kwok Kuen Donovan ^{Note}	1,200	HK\$1.00 per share
Mr. Hui Hoi Yung ^{Note}	1,200	HK\$1.00 per share
Mr. Pao Tak Lee ^{Note}	900	HK\$1.00 per share
Mr. Yau Kan Yin ^{Note}	900	HK\$1.00 per share
Mr. Sze Ho Yan ^{Note}	400	HK\$1.00 per share
Mr. Lo Fong Sang (“Mr. Lo”) ^{Note}	400	HK\$1.00 per share
Ms. Fu	200	HK\$1.00 per share

Note: Independent Third Party

On 23 December 1999, 200 shares of CFJ Limited were transferred from Mr. Kwok Ying Ming to Ms. Cheung at a consideration of HK\$1.00 per share.

From December 1999 to June 2015, there were a series of share transfers among the then shareholders from time to time including on 11 February 2004, 150 shares of CFJ Limited were transferred from Mr. Fu to Mr. Chu Yau Tak, an Independent Third Party, at a consideration of HK\$1.00 and on 30 April 2010, 200 shares of CFJ Limited were transferred to CFH Limited from Mr. Sze Kam Fuk (a shareholder and an Independent Third Party at the relevant time) at a consideration of HK\$400,000.

In around July 2015, all shareholders of CFJ Limited were invited to subscribe for new shares in CFJ Limited at HK\$1.00 per share, however none of the shareholders, other than Mr. Fu opted to subscribe for more shares at the time. On 26 August 2015, 20,000,000 shares of CFJ Limited were issued and allotted to Mr. Fu at a consideration of HK\$1.00 per share.

HISTORY, DEVELOPMENT AND REORGANISATION

As at 26 August 2015, CFJ Limited was owned as to:

Shareholder	Number of shares	Percentage
Mr. Fu	20,008,325	99.992%
Mr. Lo	700	0.003%
Ms. Fu	398	0.002%
Ms. Cheung	227	0.001%
CFH Limited	200	0.001%
Mr. Chu Yau Tak	150	0.001%
Total	20,010,000	100%

On 12 April 2018, 700 shares of CFJ Limited were transferred from the Official Receiver on behalf of Mr. Lo to Mr. Fu at a consideration of HK\$4,000. Since 12 April 2018 and until immediately prior to the Reorganisation, CFJ Limited was owned as to:

Shareholder	Number of shares	Percentage
Mr. Fu	20,009,025	99.995%
Ms. Fu	398	0.002%
Ms. Cheung	227	0.001%
CFH Limited	200	0.001%
Mr. Chu Yau Tak	150	0.001%
Total	20,010,000	100%

CFH Limited

CFH Limited was incorporated under the laws of Hong Kong on 7 January 2000 with limited liability under its former name of “China Fair Enterprises Limited (創發企業有限公司)”. CFH Limited is one of the Group’s operating subsidiaries, which principally engages in sourcing of precious metal and jewellery products to group companies and has commenced its business since July 2000. On 7 July 2000, CFH Limited changed its name from “China Fair Enterprises Limited (創發企業有限公司)” to “Chong Fai Group Holdings Company Limited (創輝集團控股有限公司)”.

On the date of its incorporation, 2 shares of CFH Limited were allotted and issued to two initial subscribers, Boxing Nominees Limited and Boxing Secretaries Limited, who were company service providers at that time.

HISTORY, DEVELOPMENT AND REORGANISATION

Subsequently on 26 June 2000, CFH Limited allotted and issued shares as follows:

Shareholder	Number of shares	Consideration
Mr. Fu	2,159	HK\$1.00
Mr. Tsoi Sui Yan	1,477	HK\$1.00
Mr. Tang Kwok Kuen Donovan	1,363	HK\$1.00
Mr. Pao Tak Lee	966	HK\$1.00
Mr. Yau Kan Yin	966	HK\$1.00
Mr. Hui Hoi Yung	966	HK\$1.00
Mr. Sze Ho Yan	455	HK\$1.00
Mr. Lo	455	HK\$1.00
Ms. Fu	398	HK\$1.00
Mr. Choi Kwong Lung ^{Note}	341	HK\$1.00
Ms. Cheung	226	HK\$1.00
Mr. Hui Tan ^{Note}	226	HK\$1.00

Note: Independent Third Party

From July 2000 to 29 June 2015, there were a series of share transfers among the then shareholders from time to time and as at 29 June 2015 CFH Limited was owned by as to:

Shareholder	Number of shares	Percentage
Mr. Fu	8,721	87.21%
Mr. Lo	655	6.55%
Ms. Fu	398	3.98%
Ms. Cheung	226	2.26%
Total	10,000	100%

On 12 April 2018, 655 shares of CFH Limited were transferred from the Official Receiver on behalf of Mr. Lo to Mr. Fu at a consideration of HK\$450,000. Since 12 April 2018 and until immediately prior to the Reorganisation, CFH Limited was owned as to:

Shareholder	Number of shares	Percentage
Mr. Fu	9,376	93.76%
Ms. Fu	398	3.98%
Ms. Cheung	226	2.26%
Total	10,000	100%

HISTORY, DEVELOPMENT AND REORGANISATION

CFJM Limited

CFJM Limited was incorporated under the laws of Hong Kong on 7 November 2003 and is an investment holding company.

On the date of its incorporation, CFJM Limited allotted and issued shares as follows:

Shareholder	Number of shares	Consideration
Mr. Fu	5,050	HK\$1.00
Mr. Choi Kwong Lung	1,700	HK\$1.00
Mr. Chan Ip Kwong ^{Note}	1,400	HK\$1.00
Mr. Lo	550	HK\$1.00
Mr. Hui Hoi Yung	500	HK\$1.00
Ms. Fu	350	HK\$1.00
Mr. Sze Ho Yan	350	HK\$1.00
Ms. Cheung	100	HK\$1.00

Note: Independent Third Party

From August 2014 to June 2015, there were a series of share transfers among the then shareholders from time to time and as at 29 June 2015, CFJM Limited was owned as to:

Shareholder	Number of shares	Percentage
Mr. Fu	8,837	88.37%
Mr. Lo	640	6.40%
Ms. Fu	407	4.07%
Ms. Cheung	116	1.16%
Total	10,000	100%

On 12 April 2018, 640 shares of CFJM Limited were transferred from the Official Receiver on behalf of Mr. Lo to Mr. Fu at a consideration of HK\$5,000. Since 12 April 2018 and until immediately prior to the Reorganisation, CFJM Limited was owned as to:

Shareholder	Number of shares	Percentage
Mr. Fu	9,477	94.77%
Ms. Fu	407	4.07%
Ms. Cheung	116	1.16%
Total	10,000	100%

HISTORY, DEVELOPMENT AND REORGANISATION

KJJ Limited

KJJ Limited was incorporated under the laws of Hong Kong on 28 May 2012 with limited liability under its former name “Forever Jewellery Company Limited (永恆珠寶集團有限公司)”. On 13 November 2012, KJJ Limited changed its name from “Forever Jewellery Company Limited (永恆珠寶集團有限公司)” to King Jewellery and J Company Limited (皇室珠寶玉器有限公司). KJJ Limited is one of the Group’s operating subsidiaries, which principally engages in wholesale of pearl-set jewellery products and has commenced its business since May 2012. Since incorporation and until prior to the Restructuring, KJJ Limited has issued and allotted 1 share to Mr. Fu.

WR Limited

WR Limited was incorporated under the laws of Hong Kong on 29 November 2011 with limited liability. WR Limited is one of the Group’s operating subsidiaries, which is principally engaged in wholesale of diamond and gem-set jewellery products and has commenced its business since November 2011. Since incorporation and until prior to the Restructuring, WR Limited has issued and allotted 1 share to Mr. Fu.

Jinsen Factory

On 20 November 2003, CFJM Limited and Shenzhen Jinsen Jewellery Company Limited (深圳市金森珠寶首飾有限公司) entered into an agreement to set up Jinsen Factory. On 8 December 2003, the Yantian Branch of Shenzhen Administration for Industry and Commerce (深圳市工商局鹽田分局) issued the “Guangdong Province Foreign Trade Processing License” (廣東省對外來料加工特准營業證) and approved the establishment of Jinsen Factory. Jinsen Factory was principally engaged in manufacturing precious metal and jewellery products for the Group and ceased operations in November 2011. Jinsen Factory was subsequently deregistered on 13 May 2015.

ZHJ Limited

ZHJ Limited is a limited liability company established in the PRC on 18 November 2011 with a registered capital of HK\$2,000,000. On 6 August 2015 the registered capital of ZHJ Limited was increased to HK\$8,000,000. ZHJ Limited has been owned as to 100% by CFJM Limited since its establishment.

ZHJ Limited is one of the Group’s operating subsidiaries, which is principally engaged in manufacturing precious metal and jewellery products for the Group and has commenced its business since November 2011.

ZDHJ Limited

ZDHJ Limited is a limited liability company established in the PRC on 29 May 2015 and has a registered capital of US\$1,000,000. ZDHJ Limited has been owned as to 100% by KJJ Limited since its establishment. ZDHJ Limited had no business operations since its incorporation. On 29 December 2017, KJJ Limited passed shareholder’s resolutions to dissolve ZDHJ Limited. As at the Latest Practicable Date, the deregistration procedure of ZDHJ Limited is still in progress.

HISTORY, DEVELOPMENT AND REORGANISATION

REORGANISATION

The companies comprising the Group underwent the Reorganisation to rationalise the Group's corporate structure in preparation for the Share Offer, and as a result, the Company became the holding company of the Group.

Incorporation of the Company and its holding company

MGH Limited

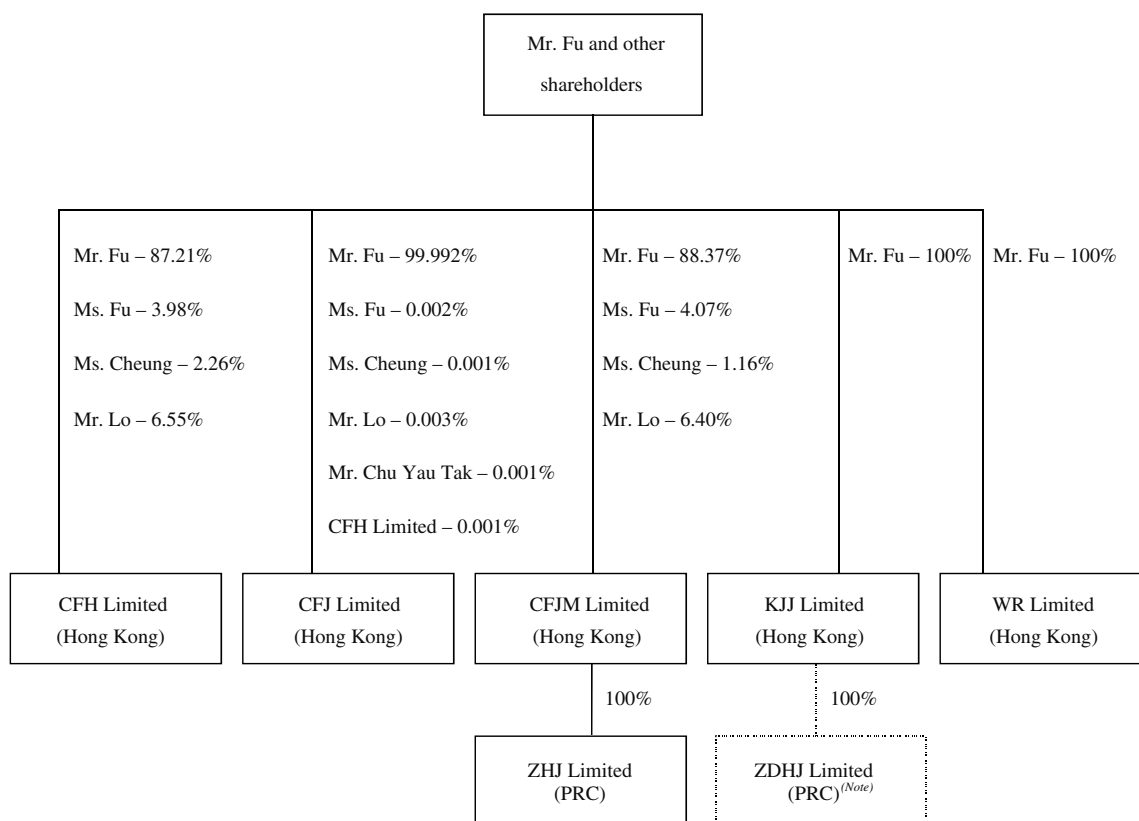
MGH Limited was incorporated under the laws of BVI on 10 January 2018 with limited liability and is authorised to issue a maximum of 50,000 shares of one class with no par value, of which one share was allotted and issued as fully paid to Mr. Fu at a subscription price of US\$1.00 on 22 January 2018. Accordingly, MGH Limited was wholly owned by Mr. Fu upon its incorporation.

The Company

The Company was incorporated as an exempted company under the laws of the Cayman Islands on 11 January 2018 with limited liability. The initial authorised share capital of the Company was HK\$380,000 divided into 38,000,000 Shares of HK\$0.01 each. Upon incorporation of the Company, one Share was allotted and issued as fully paid at par to Mapcal Limited, being the initial subscriber, and the Share was then transferred to MGH Limited on the same day. Accordingly, the Company became a direct wholly owned subsidiary of MGH Limited.

On 23 March 2018, the Company was registered in Hong Kong as a non-Hong Kong company under Part 16 of the Companies Ordinance.

Set forth below is the corporate structure and shareholding structure of the Group immediately prior to the implementation of the share swap as detailed below for the purpose of the Reorganisation:



Note: ZDHJ Limited is in the process of deregistration and shall not form part of the listing group.

HISTORY, DEVELOPMENT AND REORGANISATION

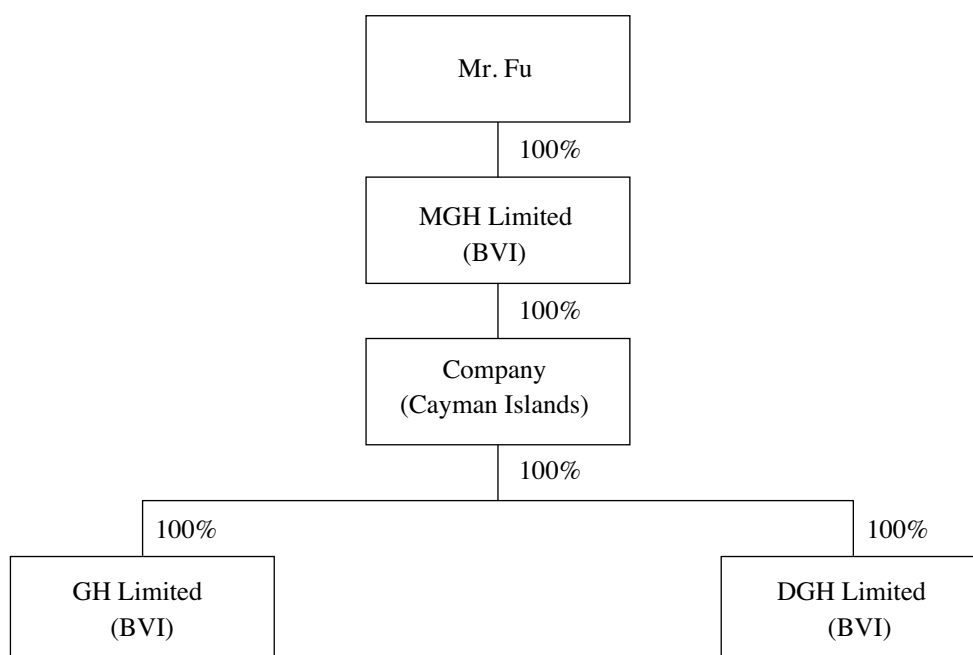
GH Limited

GH Limited was incorporated under the laws of BVI on 6 February 2018 with limited liability and is authorised to issue a maximum of 50,000 shares of one class of no par value, of which one share was allotted and issued as fully paid to the Company at a subscription price of US\$1.00 on 28 February 2018. Accordingly, GH Limited became a direct wholly owned subsidiary of the Company.

DGH Limited

DGH Limited was incorporated under the laws of BVI on 6 February 2018 with limited liability and is authorised to issue a maximum of 50,000 shares of one class of no par value, of which one share was allotted and issued as fully paid to the Company at a subscription price of US\$1.00 on 28 February 2018. Accordingly, DGH Limited became a direct wholly owned subsidiary of the Company.

Below sets out the corporate structure of MGH Limited, the Company, GH Limited and DGH Limited prior to the Reorganisation:



Acquisition of the interests of Mr. Lo Fong Sang by Mr. Fu

On 12 April 2018, 655 shares of CFH Limited, 700 shares of CFJ Limited and 640 shares of CFJM Limited were transferred from the Official Receiver on behalf of Mr. Lo to Mr. Fu at a consideration of HK\$450,000, H\$4,000 and HK\$5,000, respectively, which was settled and completed on the same day (the “**Lo Shares**”). For further details on the effect on the shareholding of CFJ Limited, CFJM Limited and CFH Limited after such transfer, please refer to the paragraphs headed “History, development and Reorganisation - History and corporate development”, “CFJ Limited”, “CFH Limited” and “CFJM Limited” in the section headed in this prospectus.

HISTORY, DEVELOPMENT AND REORGANISATION

The purchase of the Lo Shares by Mr. Fu is considered as a pre-IPO investment pursuant to the Guidance Letter HKEX-GL43-12 issued by the Stock Exchange.

The following table summarises the details of the acquisition of the Lo Shares:

Purchaser's background:	Mr. Fu, Chairman, CEO and executive Director of the Company. He is one of the Controlling Shareholders. He is also the spouse of Ms. Cheung and younger brother of Ms. Fu
Date of transfer agreements:	12 April 2018
Date of settlement of the consideration for the Lo Shares:	12 April 2018
Date of completion of the Lo Shares:	12 April 2018
Aggregate amount of consideration paid:	HK\$459,000
Number of Shares held by Mr. Fu immediately following the completion of the Capitalisation and the Share Offer in the Company represented by the Lo Shares:	4,404,580 Shares <i>Note 1</i>
Basis of determination of consideration:	A valuation conducted by an independent valuer agreed between the Official Receiver and Mr. Fu
Cost per Share represented by the Lo Shares by Mr. Fu upon Listing (assuming that the Capitalisation Issue has taken place):	Around HK\$0.10 per Share
Discount over the mid-point of the indicate Offer Price range:	66%
Use of proceeds:	Not applicable since the relevant share transfer agreements were between Mr. Fu and the Official Receiver
Benefits that purchase would bring to the Group:	At the relevant time, Mr. Lo was a bankrupt. Mr. Fu purchased the Lo Shares using personal funds to remove any uncertainties in relation to the shareholding of the respective companies due to such bankruptcy
Special rights that will survive after Listing:	None

HISTORY, DEVELOPMENT AND REORGANISATION

Whether the Shares represented by the Lo shares will be subject to any lock-up period: Mr. Fu has provided certain undertakings to the Company, the Sole Sponsor, the Joint Lead Managers and the Underwriters which includes lock-up undertakings, details of which are set out under the section headed “Underwriting — Undertakings pursuant to the “Public Offer Underwriting Agreements” in this prospectus

Whether the Shares represented by the Lo Shares are counted as part of the public float for the purpose of Rule 11.23 of the GEM Listing Rules after the Listing: No

The sole Sponsor is of the view that the transfer of the Lo Shares complies with the Guidance Letters HKEX-GL29-12 and HKEX-GL43-12 in respect of guidance on pre-IPO investments issued by the Stock Exchange, as there has been at least 120 days between the completion of the transfer of the Lo Shares and the Listing Date.

Notes:

The number of Shares held by Mr. Fu represented by the Lo Shares is calculated as follows:

- (i) firstly, the number of Lo Shares of each Hong Kong subsidiary of the Group is divided by the respective number of shares of the Hong Kong subsidiary transferred by Mr. Fu pursuant to the Share Swap Deed to derive the percentage of shares transferred by Mr. Fu in each of the Hong Kong subsidiaries pursuant to the Share Swap Deed which were the Lo Shares.
- (ii) secondly, such individual percentages are multiplied by the respective number of shares issued by MGH Limited to Mr. Fu for the transfer of each respective Hong Kong subsidiary pursuant to the Share Swap Deed to derive the total number of shares in MGH Limited represented by the Lo Shares.
- (iii) thirdly, such number is then divided by the total number of shares of MGH Limited to derive the percentage of shares in MGH Limited which are represented by the Lo Shares.
- (iv) fourthly, such percentage is multiplied by the number of shares held by MGH Limited in the Company upon Listing to derive the number of Shares represented by the the Lo Shares.

Acquisition of CFJ Limited, CFH Limited, CFJM Limited, KJJ Limited and WR Limited by GH Limited and DGH Limited from Mr. Fu, Ms. Fu and Ms. Cheung

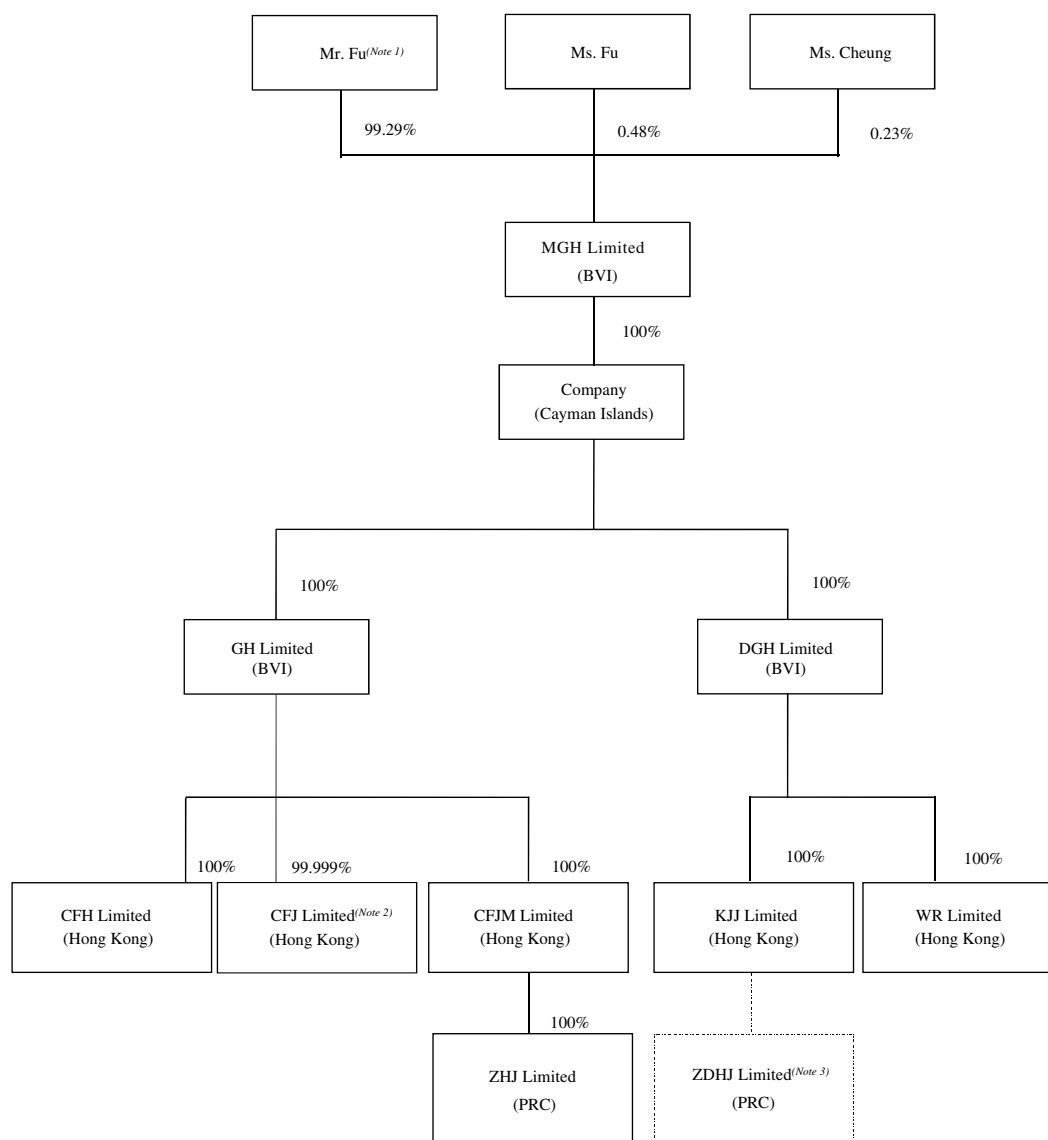
On 12 April 2018, Mr. Fu, Ms. Fu and Ms. Cheung (together as transferors) entered into a share swap deed (the “**Share Swap Deed**”) with GH Limited, DGH Limited (together as transferees) and MGH Limited, pursuant to which: (i) Mr. Fu, Ms. Fu and Ms. Cheung, shall transfer 9,376 shares, 398 shares and 226 shares of CFH Limited, respectively, 20,009,025 shares, 398 shares and 227 shares of CFJ Limited, respectively, 9,477 shares, 407 shares and 116 shares of CFJM Limited, respectively,

HISTORY, DEVELOPMENT AND REORGANISATION

to GH Limited; and (ii) Mr. Fu shall transfer 1 share of KJJ Limited and 1 share of WR Limited, to DGH Limited, in consideration of MGH Limited allotting and issuing 9,928 shares, 48 shares and 23 shares of MGH Limited to Mr. Fu, Ms. Fu and Ms. Cheung, respectively, all credited as fully paid up in the capital of MGH Limited. The Share Swap Deed was completed on 12 April 2018.

Upon completion of the Reorganisation, the Company became the holding company of the Group.

Set forth below is the corporate structure and shareholding structure of the Group immediately after the Reorganisation but prior to the Capitalisation Issue and the Share Offer:



Notes:

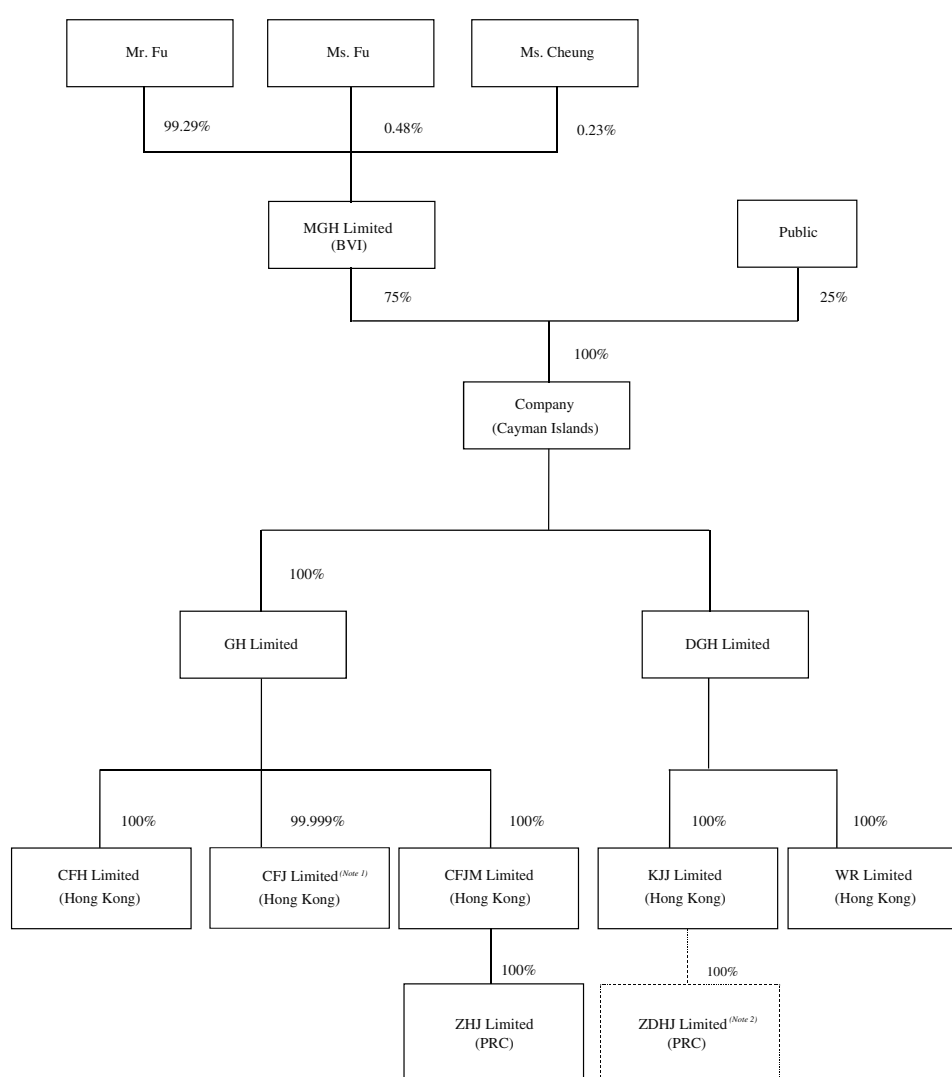
1. Mr. Fu is the brother of Ms. Fu and husband of Ms. Cheung. The Directors confirmed that save as the aforesaid, there is no other family relationship among the shareholders in the above diagram.
2. The interests of Mr. Chu Yau Tak remain the same prior to and after the Reorganisation. Mr. Chu Yau Tak is an Independent Third Party, remaining as a minority shareholder of CFJ Limited holding 150 shares.
3. ZDHJ Limited is in the process of deregistration and will not form part of the listing group.

HISTORY, DEVELOPMENT AND REORGANISATION

Capitalisation Issue

Conditional upon the grant of the listing approval for the Listing of and permission to deal in the Shares on GEM, the Company will offer 187,500,000 Shares, being an aggregate of 25.0% of the total issued share capital of the Company (as enlarged by the Shares offered under the Share Offer and Shares issued under the Capitalisation Issue, excluding the options which may be granted under the Share Option Scheme), for subscription by the public in Hong Kong and by placing with professional, institutional and private investors. Conditional upon the share premium account of the Company being credited with the proceeds of the Share Offer, an appropriate sum will be capitalised and applied in paying up in full 562,499,999 Shares to be allotted and issued to the then existing Shareholders so that the number of Shares so allotted and issued, when aggregated with the number of Shares already owned by them, will constitute 75.0% of the issued share capital of the Company.

Set forth below is the corporate structure and shareholding structure of the Group immediately after the Capitalisation Issue and the Share Offer (without taking into account the Shares which may be issued upon the exercise of any option which may be granted under the Share Option Scheme):



Notes:

1. Mr. Chu Yau Tak remains as a minority shareholder of CFJ Limited holding 150 shares.
2. ZDHJ Limited is in the process of deregistration and will not form part of the listing group.

BUSINESS

OVERVIEW

The Group is a vertically integrated jeweller based in Hong Kong. The Group is primarily engaged in the retail of its own products through its network of eight retail stores under the brand name of “Chong Fai Jewellery (創輝珠寶)” strategically located in Kowloon and the New Territories. Being vertically integrated, the Group possesses the means to control the diversity, quality and pricing of its own jewellery designs produced in-house at its production facility in Shenzhen, Guangdong Province, the PRC. The Group’s principal products are jewellery products, including gem-set jewellery and pure gold products. According to the Frost & Sullivan Report, for the year ended 31 March 2017, in terms of revenue, the Group ranked 10th of the jewellery retail and wholesale market in Hong Kong. The Group also engages in the wholesale of its jewellery products to other jewellery retailers, and the trading of recycled gold products from the general public to customers such as Customer A, who purchase recycled gold products from the Group.

The following table sets forth the Group’s revenue by business segment during the Track Record Period:

	Year ended 31 March			
	2017		2018	
	<i>HK\$'000</i>	(%)	<i>HK\$'000</i>	(%)
Retail	122,133	60.0	113,312	65.5
Wholesale	68,907	33.9	45,835	26.5
Trading of recycled gold products	12,424	6.1	13,873	8.0
Total	203,464	100.0	173,020	100.0

	Year ended 31 March			
	2017		2018	
	<i>HK\$'000</i>	(%)	<i>HK\$'000</i>	(%)
Gem-set jewellery products	134,667	66.2	107,246	62.0
Pure gold products	56,373	27.7	51,901	30.0
Trading of recycled gold products	12,424	6.1	13,873	8.0
Total	203,464	100.0	173,020	100.0

BUSINESS

COMPETITIVE STRENGTHS

Vertically integrated business model allows the Group to control its operation effectively and its cost efficiently

The Group's vertically integrated business model allows control over its processes from raw material procurement, design, production, marketing and sales through its retail and wholesale channels. The Group's vertical integration allows cost efficiencies by cutting out the middleman, as well as a high level of control over the entire value chain and the ability to respond quickly to its customers' needs and preferences in changing market trends.

The Group's cost efficiencies stem from operational efficiencies in making purchases directly from raw material suppliers, which often translate into more competitive pricing for its products, which benefits its customers as well as attracting more customers to buy its products. Being vertically integrated, the Group is able to exercise a high-level of control over quality standards and procedures across its whole value chain to ensure the quality of jewellery products being made available to its customers.

Having control over its design processes, the Group also has the flexibility to respond to changing market trends and the ability to respond quickly to its customers' needs and preferences by introducing new and diverse jewellery designs to capture future growth in changing market trends. The Directors consider the diversity of the Group's jewellery product designs has also contributed to its success to date.

The Group has built up a well-established customer base through its efforts and well-established operating history in Hong Kong and trusted brand reputation

The Directors believe that the Group's ability to build a well-established customer base is dependent on the Group's well-established operating history in Hong Kong. The Group has accumulated over 20 years of valuable experience in serving the general public in Hong Kong through its branded retail stores. The Group has strived to build up customers confidence towards its brand by offering quality services and products throughout its history. The Directors consider that the Group's brand name is recognised as a trusted traditional jeweller through its efforts. The Group has been granted the Quality Gold Mark for its gold jewellery products, issued by the Hong Kong Jewellers' and Goldsmiths' Association Limited since 1997. The Group has been granted the Quality Tourism Services Scheme Certification Mark by the Hong Kong Tourism Board since 2005.

The Group has positioned its retail network in residential and commercial districts in Kowloon and the New Territories that have easy access and high footfall traffic of local customers. Through a combination of having a retail presence in some districts for over a decade and in the case of its Tsuen Wan retail store, the Group has operated from the same location for over 20 years as well as providing reasonable priced jewellery products and customer reward schemes, the Group has built up a well-established retail customer base. The Group has strategically placed craftsmen within its larger

BUSINESS

retail stores to perform bespoke stone-setting, repair or resizing services. The Group also strives to build its retail customer base offering certain incentives to retail customers who have joined its customer reward schemes. For further details of the Group's customer reward schemes, please refer to the sub-section headed "Marketing and promotion" in this section.

The Group achieved sales diversification in November 2011 when it successfully developed its wholesale business. Being vertically integrated, the Group is able to offer its diverse jewellery products to its wholesale customers at competitive rates. For the years ended 31 March 2018, three of the Group's five largest wholesale customers have been wholesale customers of the Group for over five years.

The Directors believe that the Group's ability to build a well-established customer base is also dependent on the Group's responsiveness to evolve in line with market trends including the shifting of customer taste for jewellery designs and appetite for competitively priced jewellery products.

Experienced production team enabling production of fine jewellery of high quality and complexity

The Group possesses a team of experienced craftsmen which is capable of transforming its designs into jewellery products. The Group's production team members at its production facility has an average of approximately five years of experience in the industry and over one-third of the team have been working for the Group for more than five years. As production for jewellery is generally highly labour-intensive and the quality of each piece of jewellery depends on how well each step in the production process is performed, an experienced and long-term production team is one of the Group's most valuable assets.

The Directors believe that by utilising the Group's craftsmen's skills, the aesthetic value of its jewellery products is well-received by the Group's customers and it was thereby able to obtain higher profit margin.

Loyal and experienced management team

The loyalty displayed by the management team to the Group set important corporate values and inspires allegiance towards the Group amongst the rest of its workforce. With a number of the Group's management team members having worked their way up through the ranks, they have built a deep knowledge and a thorough understanding of every facet of its business and operations. As a result, the Group's management team, which has cooperated together for over ten years, is able to work efficiently and seamlessly as a team and efficiently execute its development and expansion plans over the years.

The Directors believe the unique dynamics of the Group's management team give it a competitive edge in the management and continuing expansion of the business, allowing it to capture future growth opportunities as they arise.

BUSINESS

BUSINESS STRATEGIES

The Group strives to maintain the Group as one of the top jewellers in Hong Kong by increasing market penetration, expanding customer base and increasing recognition of corporate brand name. The Group intends to implement the following strategies to capitalise on its strengths so as to enhance business prospects and financial performance:

Expand the Group's retail presence

The Group plans to continuously expand its sales and distribution network to capture a wider customer base and deepen the market penetration of its products by diversifying its retail network in Hong Kong.

Despite the highly competitive market environment, the Directors believe that there are unexplored market opportunities for the Group's business. According to the Frost & Sullivan Report, an increasing number of younger consumers have become the new drivers for Hong Kong jewellery market. Young working groups aged from 20 to 25 are more fashion oriented and willing to buy fashion jewellery products for daily wear. Those young consumers are likely to drive the potential growth in the next few years. It is therefore the Group's intention to focus on opening new retail stores in areas popular with young generations in order to capture such potential market opportunities.

As at the Latest Practicable Date, the Group had seven retail stores, covering an aggregate gross retail floor areas of approximately 4,242 sq. ft.. For a breakdown of the Group's financial performance by retail store, please refer to the sub-section headed "Retail" in this section. The Group intends to replicate the Group's successful experiences in expanding retail network in recent years. The Group opened the retail store in Tuen Mun in April 2017, and for the year ended 31 March 2018, revenue from the retail store in Tuen Mun amounted to approximately HK\$16.0 million, quickly being becoming the Group's third most important retail zone in terms of revenue contribution for such period. Please refer to the sub-section headed "Retail" in this section for details of financial performance of the Group's individual retail stores during the Track Record Period. Given the Group's past success with retail network expansion, the Directors consider that the Group will be capable of growing its business over time through the expansion of retail floor area in its targeted retail districts.

When selecting an appropriate location for opening a retail store, the Group prefers prime shopping areas in West Kowloon such as Mongkok and Tsim Sha Tsui. The Directors believe Mongkok and Tsim Sha Tsui to be suitable places for retail network expansion because (i) Mongkok and Tsim Sha Tsui are prime shopping areas in Hong Kong with high shopper footfall and thus there is potential for expansion; and (ii) Mongkok and Tsim Sha Tsui are renowned for being an area of popular places for younger generations, which aligns the Group's objective to capture such potential market opportunities.

BUSINESS

As at the Latest Practicable Date, the Group already has three existing retail stores in West Kowloon. Nonetheless, the Directors are of the view that the impact of the opening of a new retail store in Mongkok or Tsim Sha Tsui to possibly reduce the customer traffic and the market share of the Group's existing retail stores in West Kowloon to be relatively remote after considering the following factors:

- (i) according to the Frost & Sullivan Report, it is not uncommon for jewellers in Hong Kong to open more than one jewellers in the same district;
- (ii) according to the Frost & Sullivan Report, as at 31 March 2017, Mongkok has 45 jewellery retail stores and Tsim Sha Tsui has 60 jewellery retail stores. Such concentration of jewellery retail stores generates a consolidation effect to promote the area as being a primary focus for jewellery products. This in turn promotes customer traffic and sales capacity for the area and enables the Group to benefit therefrom;
- (iii) the new retail store would provide synergy effect with the existing retail stores in West Kowloon. For example, the stores could provide complementary support to each other in respect of product offering and provide daily resource backup to each other such as staff re-allocation and stock transfer where necessary;
- (iv) the Group has already demonstrated the feasibility of its approach to have two retail stores in the same district, having operated its two existing retail stores in Kowloon Bay since 2012. Such approach can demonstrate that the market cannibalisation of stores within the same district is remote.

Nonetheless, to further minimise possible impact of market cannibalisation of opening two retail stores in the same district, the existing retail stores and the new retail store would be strategically positioned to offer certain jewellery products with different themes or styles.

Set out below are further details of the Group's proposed new retail store:

Location:	Mongkok or Tsim Sha Tsui
Floor area:	Around 1,800 sq. ft.
Source of funding:	Use of proceeds from the Share Offer and internal resources
Expected breakeven periods:	Approximately two months
Expected investment payback periods:	Approximately 16 months
Relevant regulatory approval required:	Except for a valid business registration certificate under the Business Registration Ordinance (Chapter 310 of the Laws of Hong Kong), the Directors confirm that the Group is not required to obtain any industry-specific licence, permit, authorisation, qualification or approval of the Group's operation of retail stores in Hong Kong

BUSINESS

Note: Approximate expected breakeven periods and expected investment payback periods are based on historical data in relation to the recent opening of the Group's retail store in Tuen Mun, taking into account the difference in size in terms of floor area of the proposed new retail store.

It is anticipated that the lag time for achieving break-even position with the Group's further expansion plan of opening a retail store to be relatively manageable. As mentioned above, based on the Group's experience with the opening of new retail stores in recent years, it is anticipated that it will take approximately two months for the new retail store to achieve break even position, in order that the new retail store will be able to generate sufficient sales revenue to cover its recurrent operating cost. The Directors believe the Group has sufficient financial resources to conveniently pass through the intervening initial business start-up phase for its plan to open the new retail store, taking into account the anticipated enhancement of its capital base with the Listing proceeds.

A detailed breakdown of the portion of capital expenditure funded by the use of proceeds for the proposed establishing of the Group's retail store (based on the Offer Price of HK\$0.32 per Offer Share, being the mid-point of the indicative Offer Price range), upon Listing but before 30 September 2020 is as follows:

	<i>HK\$ ('000)</i>
Rental deposit and advance rental payment (<i>Note 1</i>)	3,200
Purchase of inventories (<i>Note 2</i>)	15,000
Store renovation (<i>Note 3</i>)	3,000
Recruitment of one store manager and sixteen sales staff (<i>Note 4</i>)	<u>5,800</u>
Total	<u><u>27,000</u></u>

Notes:

1. The information on the expected rental deposit, being three months of the expected monthly rental and another one month advance rental payment.
2. The purchase of inventories is calculated with reference to the current inventory of the Group's existing retail stores multiplied by the expected floor area of the proposed retail store. The inventory balance as at the Latest Practicable Date is for the existing retail and wholesale operations of the Group and given the large size of the proposed store compared to the existing retail stores, the proposed purchase of inventories will all be for the new store. Furthermore, in order to attract customers to the shops, it is vital to include certain amount of inventories for display purposes. For illustrative purposes, the average inventory per shop is approximately HK\$8,300 per square foot.
3. The store renovation costs are estimated with reference to historical record of renovation costs by floor area. It is expected that approximately 70% of the total store renovation costs to be paid upfront for the six months ending 31 March 2019 and the remaining of the total store renovation costs of approximately 30% to be paid for the six months ending 30 September 2019.
4. The sales staff salaries up to 30 September 2020 will be fully funded by the net proceeds of the Share Offer.

BUSINESS

The total expected net proceeds to be used for the opening of the new retail store would be approximately HK\$27.0 million, representing approximately 73.0% of the Group's net proceeds from the Share Offer, which will be fully applied out of the net proceeds of the Share Offer. Any shortfall or other costs incurred in the ordinary course of business such as rental expenses, sales commission are intended to be financed by internal resources of the Group. The Directors are of the view that the proposed expansion plan has no material adverse impact on the Group's business operations and financial performance.

As at the Latest Practicable Date, the Group has yet to commence the identification of the specific suitable premises for the new retail store.

The actual location and timing of the new retail store opening will be affected by a number of factors and subject to a number of uncertainties. The Group may make necessary adjustments to such in order to optimise the Group's liquidity status, depending on the then existing market conditions, expected breakeven period and payback periods and necessary costs of preparation for the opening of the new retail store.

Enhancing the Group's brand recognition through marketing and unifying its corporate image

The Directors believe that successful branding is key to the Group's business development. Given that approximately 60.0% and 65.5% of the Group's revenue were generated from retail customers for the years ended 31 March 2017 and 2018, respectively, the Directors believe that the marketing and promotion of its products and brand name should be of utmost importance to increase the general public awareness of the Group and its products.

The Group plans to enhance its brand by adopting a multi-channel advertising strategy. In addition to the traditional advertising channels such as printed media advertising, the Group intends to evaluate the possibility in television advertising on free or paid television networks. The Group also intends to enhance internet advertising such as promoting the Group's brand on social networking websites which the Directors believe will help the Group target specific customer groups and gain access to a wider customer base. The Group also intends to participate in industry and trade shows to promote the Group's brand and products in order to increase the recognition of the Group's brand management and sales network management as well as attracting new wholesale customers.

The expected amount to be incurred for the period from the Latest Practicable Date to 30 September 2020 for the launching of various marketing and promotional activities is approximately HK\$3.2 million, representing approximately 8.6% of the Group's net proceeds from the Share Offer.

The Group also plans to strengthen its brand recognition and present a consistent brand image across all of the Group's retail stores in terms of interior design. It is the Group's plan that all its retail stores to be renovated in a uniform style in terms of interior design to convey the Group's brand philosophy to the Group's customers and create a comfortable and relaxed environment for customers to shop. The Directors believe that this will facilitate the Group's long term growth momentum and bolster the Group's market position as a local jeweller in Hong Kong.

BUSINESS

As the Group's retail store in Tuen Mun was opened recently in April 2017, the Group will only renovate and furnish the remaining of the Group's existing retail stores to ensure the consistency of the Group's brand image across all of the Group's retail stores. The abovementioned renovation and furnishing will be conducted in phases, meaning that only one retail store will be conducting renovation and furnishing at a time. The Directors believe that the renovation and furnishing will require the relevant retail store to suspend trade for one week at most, with the majority of renovation works being conducted after normal closing hours to minimise disruptions and suspension of trade for the retail store. On such basis, the Directors believe that the renovation will have no material impact of the Group's business operations.

The expected amount to be incurred for the period from the Latest Practicable Date to 30 September 2020 for the furnishing of the Group's existing retail stores is approximately HK\$3.1 million, representing approximately 8.4% of the Group's net proceeds from the Share Offer, which is estimated with reference to the historical record of refurbishing costs of retail stores.

Expand the Group's jewellery design collection

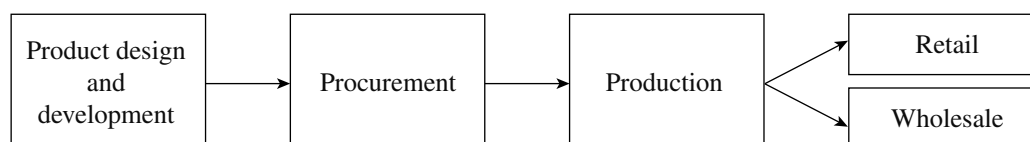
According to the Frost & Sullivan Report, consumers are currently putting great stress on not only quality but also design of jewellery products. In that case, it is necessary for jewellers to offer products with unique design and more advanced techniques. Innovative designs are important for moving up-market and differentiating from other jewellery brands.

The popularity of jewellery brands depends in part on its ability to provide a wide variety of trendy and fashionable jewellery designs. In order to capture future growth, the Group intends to expand its jewellery design collection in line with customer needs and preferences and market trends. Such costs are to be funded by the Group's internally generated funds. The Group will also actively participate in industry and trade shows in order to obtain further information on the current and future development of different jewellery products and analyse the market need, market size, potential competition, development trend and segmentation of such products.

BUSINESS MODEL

The Group primarily engages in the retail and wholesale of its jewellery products which are both self-manufactured and externally sourced. To a lesser extent, the Group also trades recycled gold products. The Group's business model can be illustrated as follows;

Retail and wholesale of jewellery products:



Trading of recycled gold products:



BUSINESS

The following table sets forth a breakdown of its revenue of the above business segments during the Track Record Period:

	Year ended 31 March			
	2017		2018	
	<i>HK\$'000</i>	<i>(%)</i>	<i>HK\$'000</i>	<i>(%)</i>
Retail	122,133	60.0	113,312	65.5
Wholesale	68,907	33.9	45,835	26.5
Subtotal	191,040	93.9	159,147	92.0
Trading of recycled gold products	12,424	6.1	13,873	8.0
Total	<u>203,464</u>	<u>100.0</u>	<u>173,020</u>	<u>100.0</u>

The following table sets forth the sales volume, average selling price and price range of the Group's recycled gold products by weight during the Track Record Period:

	Year ended 31 March	
	2017	2018
Sales volume by weight (tael)	1,063	1,184
Average selling price (HK\$ per tael)	11,682	11,715

As the selling price of recycled gold products is set according to the market price of gold at the time of the transactions and the actual weight of the recycled gold products, the price range of recycled gold is represented by the market price of gold in HK\$ per tael. In FY2017, the monthly average price of gold varied from HK\$10,819 per tael to HK\$12,601 per tael and FY2018, ranged from HK\$11,615 per tael to HK\$12,513 per tael, according to the World Gold Council.

PRODUCTS

The Group's principal products are mass luxury jewellery products, including gem-set jewellery products and pure gold products, which are produced in-house at its production facility in Shenzhen, Guangdong Province, the PRC. Raw materials used in its jewellery products include diamonds, gemstones (which include coloured stones, jadeite and pearls), gold and platinum. All jewellery products that include diamonds and gemstones are categorised as gem-set jewellery products. The Group's range of gem-set jewellery products include earrings, rings, pendants, necklaces, bracelets and bangles. Diamond and gemstone jewellery are usually inlaid and set in karat gold or platinum. During the Track Record Period, the Group sourced certain generic and easy-to-make products from external producers. Save for the externally sourced simple jewellery products, the Group's jewellery products have been designed and produced in-house.

BUSINESS

Below are some of the Group's products and the respective price range of different product types:

Product

Price range of product types

Gem-set jewellery products



18K white gold diamonds pair ring. Couple rings style for men and women.



18K white gold diamonds men's ring. Modern style catered to gentlemen.

HK\$1,000 —
HK\$2,740,000



18K white gold jade and diamonds ring. Center part of the ring can take out to wear as a pendant individually.



18K white gold jade and diamonds ring. Center part of the ring can take out to wear as a pendant individually.



18K white gold jade and diamonds pendant. Lucky pattern carving on the jade.



18K white gold jade and diamonds pendant. Traditional round shape jade represents full and rich.



18K white gold jade and diamond necklace. Center part of the necklace can take out to wear as a pendant individually.



18K white gold diamonds bangle with a pave set diamond as main stone and some smaller diamonds on both sides.

BUSINESS

Price range of product types

Pure gold products



999.9 pure gold necklace.
Modern style.



999.9 pure gold necklace.
Traditional flower style.

HK\$200 —
HK\$73,000



999.9 pure gold bangle. Hand craft
engraving dragon and phoenix style,
usually buy and sell in pairs.



999.9 pure gold bangle. Embossment of
dragon and phoenix, and word of
double happiness, usually buy and sell
in pairs.

The following table sets forth a breakdown of the Group's revenue by jewellery product types (other than recycled gold products) during the Track Record Period:

	Year ended 31 March					
	2017			2018		
	Revenue	Gross profit	Gross profit margin	Revenue	Gross profit	Gross profit margin
	<i>HK\$'000</i>	<i>HK\$'000</i>	%	<i>HK\$'000</i>	<i>HK\$'000</i>	%
Gem-set jewellery products	134,667	44,704	33.2	107,246	45,793	42.7
Pure gold products	56,373	7,854	13.9	51,901	11,102	21.4
Total	191,040	52,558	27.5	159,147	56,895	35.7

BUSINESS

SEASONALITY

The Group's business and results of operations are subject to seasonal fluctuations. Historically, the Group experienced higher sales of jewellery products as a result of increased local consumption during the Autumn and Winter seasons. This means that the Group's revenue is usually higher in the third and fourth quarter (October to February) than that in the first and second quarter (April to September) of its financial period. In particular, in FY2017, approximately 57% of the Group's revenue from its retail operations was generated during the second half of the financial year compared to approximately 43% of its revenue from its retail operations in the first half of the financial year. Similarly, in FY2018, approximately 54% of the Group's revenue from its retail operation was generated during the second half of the financial year compared to approximately 46% in the first half of the financial year. According to the Frost & Sullivan Report, the seasonality of wedding reflects on the market of jewellery in Hong Kong as most couples and their families would choose to buy jewellery products when getting married. For further details, please refer to the section headed "Risk factors — Risks relating to the Group's business — The Group's business and operating results may fluctuate significantly due to seasonality and other factors" in this prospectus.

PRODUCT DESIGN AND DEVELOPMENT

The Group's jewellery design is led by members of its senior management including its wholesale and retail manager, Mr. Yung, who possesses over 20 years of industry experience. For further details of the experience of Mr. Yung, please refer to the section headed "Directors and senior management" in this prospectus.

The Group's senior management frequently conduct market research to increase their exposure to current trends. At meetings amongst its senior management and retail and wholesale department, sales reports and market insights are reviewed and discussed to assess customer preferences. This process assists the Group in anticipating market trends which it then takes into consideration in its product design and development process.

The first stage of the Group's product development is hand-sketching. Hand sketches of proposed product designs are refined into digital designs by external graphic designers with input from the Group's senior management in charge of the design concept. Designs then proceed to the modelling stage after the approval of hand-sketches. Modelling can be conducted in a variety of methods including wax modelling and silver modelling, with prototypes produced in precious metals as the last step. The design process is completed upon the prototype receiving collective approval from the Group's senior management. The Group's retail and wholesale department will determine the order size after considering the expected market demand and its marketing strategy. Based on the Directors' past experience, the design process requires one month in general and the new product designs can be rolled out to its retail stores within two weeks from the completion of the design process.

PROCUREMENT

The Group's procurement department, comprising experts with substantial industry experience, determines the jewellery components that are required by the Group and procures jewellery components suitable in quantity and quality for its purposes following regular communications with the Group's production department and retail and wholesale department.

BUSINESS

The Group is able to purchase flexibly as it does not enter into any long-term contract with any supplier. The Group may return materials that do not meet industry standards, and may also cease procuring from any supplier whose raw materials do not meet its requirements. The Group's suppliers are promptly notified of any shortcomings in the raw materials they supply to it.

The Group has well-established relationships with its existing suppliers of diamonds, gemstones and precious metals and is able to secure a stable raw materials supply and procure raw materials at competitive market prices. The Group believes it is not dependent on any single supplier for any raw materials to any material extent. The Group evaluates potential new suppliers based on their operational scale and infrastructure, reputation, capacity and their ability to meet its specific quality requirements. Prior to placing orders with suppliers, the Group carefully inspects sample raw materials provided to it by the suppliers. The Group also conducts a quality control inspection upon delivery of its orders to ensure that they meet the Group's quality standards. Before the raw materials enter its production line, they are re-inspected and graded according to their quality and attributes, such as colour, cut, weight and clarity.

Diamonds and gemstones

All of the Group's diamonds and gemstones are purchased from suppliers in Hong Kong. To ensure that the diamonds and gemstones the Group purchase are from legitimate sources, its management team assesses and selects diamond and gemstone suppliers based on, among other things, the suppliers' reputation and their operating history in the jewellery industry, and performs periodic assessments on the selected suppliers. The Kimberley Process Certification Scheme (the "KPCS") for rough diamonds has been developed by the Kimberley Process, an international negotiating forum that seeks to stop trading in "conflict diamonds" from fuelling armed conflicts, activities of rebel movements and illicit proliferation of armament. The Trade and Industry Department and the Customs and Excise Department of Hong Kong is the designated importing and exporting authorities to implement the KPCS in Hong Kong. The KPCS in Hong Kong commenced on 2 January 2003. Under the Import and Export Ordinance (Chapter 60 of the Laws of Hong Kong) and its subsidiary legislation, the imports and exports of rough diamonds must be covered by valid Kimberley Process Certificates (Import) and Kimberley Process Certificates (Export) respectively issued by the Director-General of Trade and Industry. We do not need to perform the certification process under the KPCS since we do not engage in the import or export of rough diamonds. We rely on the importers in Hong Kong who need to fulfil the KPCS. To the best of the Directors' knowledge and information, they are not aware of any accusations or concerns regarding the legitimacy of the source of the diamonds and gem stones of our diamond and gem stone suppliers.

Precious metals

The Group purchases its precious metals from companies in the precious metals business in Hong Kong. Gold products are major precious metals purchased by the Group during the Track Record Period. All gold products are delivered to the Group's office first after the purchase. Upon delivery of the gold products, the quality control and maintenance department will examine the gold products and ensure all of them are 999.9 gold.

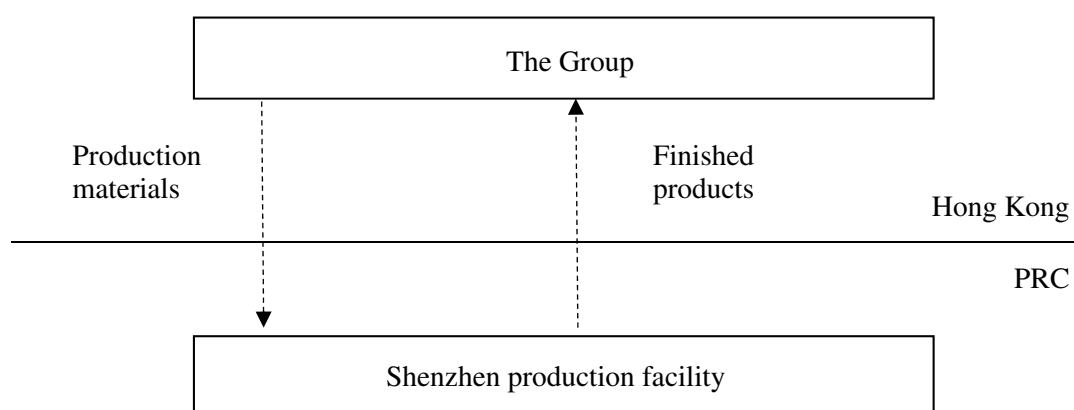
BUSINESS

It is not the Group's practice to conduct gold hedging activities in relation to the fluctuation of the gold prices as the Directors consider that the considerable costs and risks will be involved arising from the gold hedging activities and the hedging amount and period involved in a gold hedging contract offered in the market do not match with the exposures of the purchase amounts and frequency of the Group's gold products. Accordingly, the Group would instead closely monitor and take into account fluctuation of the gold prices and establish appropriate procedures such as change of product mix or pass the fluctuation in the gold prices to the customers to mitigate such risks.

PRODUCTION

The Group maintains its high product quality by producing its jewellery products in-house. The Group plans its production schedule by considering (i) anticipated sales; (ii) production lead-time; and (iii) raw material procurement plan. The Group's production is order-driven. From order to product delivery, the production lead time typically ranges from 30 to 50 working days. The Directors believe the Group's production lead time demonstrates its ability to replenish inventory on a timely basis.

The following flowchart illustrates the Group's production flow by its production facility in terms of the flow of materials and transfer of finished products:



As at 31 March 2018, the Group's production facility in Shenzhen, Guangdong Province, the PRC, which occupies a total area of approximately 1,594.93 square metres (equivalent to approximately 17,167 square feet) employed 39 staff including craftsmen and technicians. The Group continually recruits skilled craftsmen and technicians to keep pace with the demand for its products and the expansion of the business.

The Group's production process is labour intensive. Therefore, the Directors are of the view that the availability of skilled labour for certain critical production steps and the capacity of the Group's

BUSINESS

production premises to house such skilled labour very much determine the Group's overall production capacity. The following table sets out the estimated production capacity and utilisation rate of the Group's production facilities during the Track Record Period:

	Total actual output	Estimated maximum output	Utilisation rate
	<i>(Note 1)</i>	<i>(Note 2)</i>	<i>(Note 3)</i>
	<i>Pieces</i>	<i>Pieces</i>	<i>%</i>
Year ended 31 March 2017	17,825	26,352	67.6
Year ended 31 March 2018	19,311	28,608	67.5

Notes:

- (1) The total actual output refers to the total number of the Group's own products that the Group actually produced in the year as stated. During the Track Record Period, the Group also processed products for a third party customer. If these third party's products are included, the total actual output shall be 19,343 and 25,572 for the years ended 31 March 2017 and 2018, respectively.
- (2) The estimated maximum output is based on the highest monthly production volume of similar products multiplied by the number of months throughout the respective year.
- (3) Utilisation rate equals to the total actual output divided by the estimated maximum output. If third party's products as explained in Note (1) above are included, the utilisation rate shall be 73.4% and 89.4% for the years ended 31 March 2017 and 2018, respectively.

The Directors consider that the Group's utilisation rate is reasonable because the estimated maximum output is based on the volume of the month with the highest output in the respective year where the Group's staff working hours were extended (i.e. peak seasons). However, the Group typically adjusts the number of staff depending on the number and complexity of products required to be produced. The amount of time required for producing each piece of jewellery product varies significantly with reference to the complexity of its design as well as the number of diamonds and gemstones set on the product.

TRANSFER PRICING ARRANGEMENT

During the Track Record Period, the Group's operations were mainly in Hong Kong while production of the Group's products was carried out by ZHJ Limited, the Group's subsidiary incorporated in the PRC, in the Group's production facility in Shenzhen, Guangdong Province, the PRC. ZHJ Limited and CFH Limited, a wholly-owned subsidiary of the Group established in Hong Kong, have entered into a processing arrangement, under which CFH Limited provides raw materials procured from third party suppliers to ZHJ Limited for manufacturing of jewellery products. All the finished products manufactured by ZHJ Limited are then sold back to CFH Limited on a cost plus basis, for onward sale to the Group's other subsidiaries in Hong Kong which are then onsold to third party customers in Hong Kong.

BUSINESS

The above processing arrangement between ZHJ Limited and CFH Limited during the Track Record is regarded as the Group's intra-group transaction (the "**Covered Transaction**") for transfer pricing analysis purposes.

The Group has adopted transfer pricing arrangement among its group companies to regulate intragroup transactions and has taken various measures to ensure its compliance with relevant transfer pricing laws and regulations in jurisdictions where the Group operates, including:

- (i) monitoring the implementation of internal control policy on tax-related matters;
- (ii) identification of updates on transfer pricing laws and regulations and assessment of related risks on the Group;
- (iii) regular review on transfer pricing policy and exposure; and
- (iv) designating the Group account manager, Ms. Chan to regularly monitor the Group's pricing policy of intra-group transactions and report to Mr. Fu, Chairman, CEO and an executive Director, to ensure such transactions can satisfy the arm's length principle. The transactions will also be periodically reviewed by Mr. Chan, an independent non-executive Director who was a former assistant commissioner of the Hong Kong Inland Revenue Department. Further biographical details of Mr. Chan are set out in the section headed "Directors and senior management" in this prospectus. Ms. Chan plans to ensure that she keeps abreast of the relevant requirements in relation to transfer pricing by attending training sessions regularly and proactively engaging or discussing with the relevant professional parties or experts such as tax adviser and Mr. Chan in performing her duties of monitoring intra-group transactions.

In respect of the cross-border arrangement between ZHJ Limited and CFH Limited (i.e. the Covered Transaction), the Group has engaged an independent tax adviser to conduct a transfer pricing study on the Covered Transaction during the Track Record Period based on, among other things, the applicable regulations and guidance on transfer pricing in the PRC and Hong Kong.

After reviewing the advice from the independent tax adviser, the Directors are of the view that the transactional net margin method ("**TNMM**") and net cost plus ("**NCP**", being the ratio of operating profit to total costs) were the most appropriate transfer pricing method and profit level indicator, respectively, for the Covered Transaction. Based on the benchmarking analysis performed, the NCP of ZHJ Limited was below the interquartile range of weighted adjusted NCPs derived from the comparable companies in the financial year ended 31 March 2016, but above the relevant interquartile range in the financial years ended 31 March 2017 and 2018.

From Hong Kong transfer pricing perspective, there is no transfer pricing risks for the financial year ended 31 March 2016. As for the financial years ended 31 March 2017 and 2018, the Group has been paying PRC tax at a rate of 25% which is higher than the Hong Kong profit tax rate of 16.5%. Therefore, Group may apply for relief from double taxation and obtain refund if the IRD imposes any transfer pricing adjustment.

BUSINESS

From the PRC transfer pricing perspective, there is no transfer pricing risks for the financial years ended 31 March 2017 and 2018. As for the financial year ended 31 March 2016, the additional tax which may be imposed by the PRC tax authority as a result of transfer pricing adjustment is estimated to be HK\$164,000, which is immaterial. In addition, the Group can also apply for relief from double taxation.

For details of the double taxation arrangement, please refer to the section in this prospectus headed “Regulatory overview — Regulatory requirements in Hong Kong — Laws and regulations relating to transfer pricing”.

Based on the above, as advised by the Group’s independent tax adviser, the Directors are of the view that the transfer pricing arrangement of the Group has been in compliance with the relevant transfer pricing laws and regulations. The relevant analysis was conducted based on the OECD Transfer Pricing Guidelines, as well as the prevailing China transfer pricing regulations (i.e. Guoshuifa 2009 No. 2, or Circular 2) and Hong Kong transfer pricing regulations (i.e. Departmental Interpretation and Practice Notes No.46). In relation to the amendments to the Inland Revenue Ordinance on 4 July 2018 in relation to transfer pricing issues, the Company is reviewing the impact of the change with its tax adviser and Mr. Chan in order for the Company to comply with the relevant changes. For further details of the changes, please refer to the section headed “Regulatory overview — Laws and regulations relating to transfer pricing” in this prospectus.

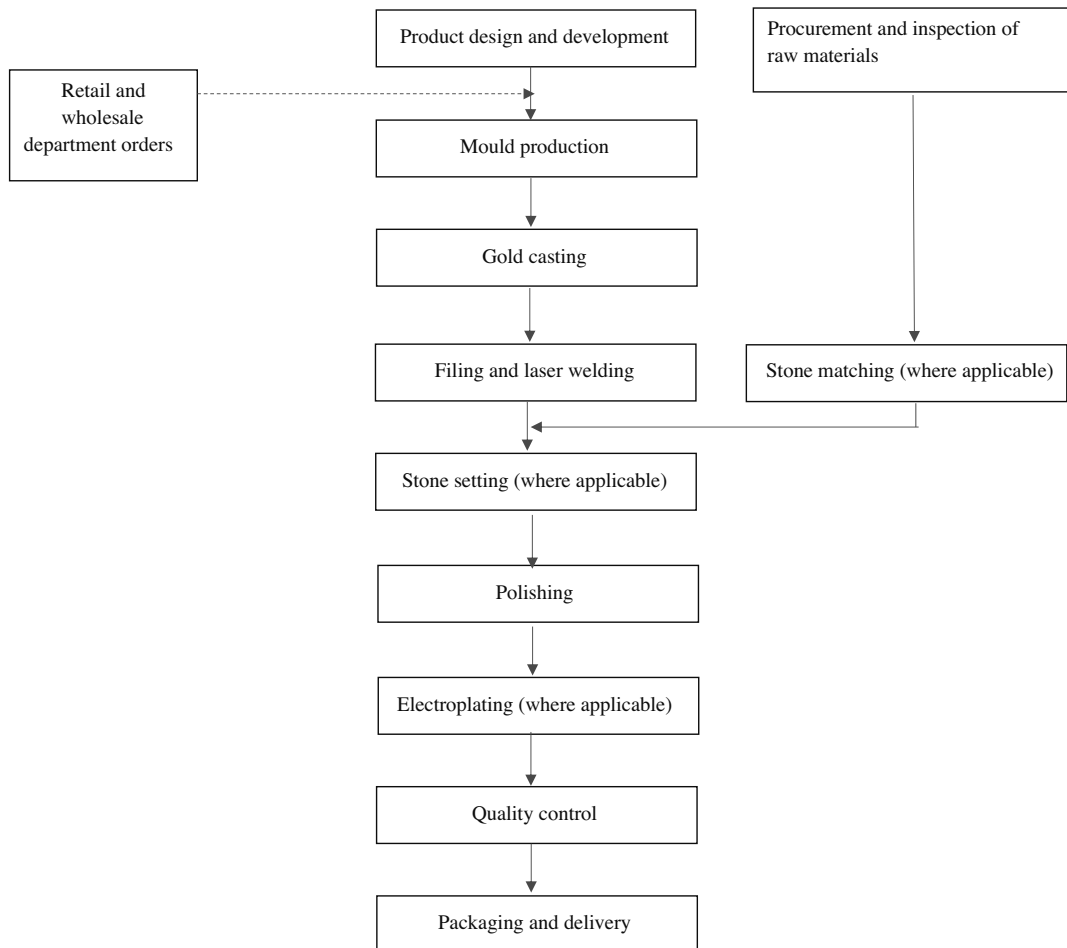
As confirmed by the Directors, the Group’s transfer pricing arrangements have not been challenged or investigated by any relevant tax authorities in Hong Kong or the PRC during the Track Record Period and up to the Latest Practicable Date.

The management of the Company had been and will continue to closely monitor the Group’s transfer pricing arrangement including reviewing the reasonableness of the pricing policy of its intra-group transactions from time to time. However, similar to other matters relating to tax, the Group cannot assure that its transfer pricing arrangement will not be subject to review and possible challenge by any relevant tax authorities in future, even though the Directors believe the Group has reasonable grounds to defend ourselves against such possible challenge. Please refer to the section headed “Risk Factors — Risks relating to the Group’s business — The Group may be subject to additional tax liability, which could have adverse impacts on its financial condition” in this prospectus for further details.

BUSINESS

PRODUCTION PROCESS

Generally, the production process of the Group's jewellery products involves hand sketching, digital design, modelling and mould production, gold casting, filing, stone matching, stone setting, polishing, electroplating and quality control and packaging. The following diagram illustrates the general production process of the Group's jewellery products:



BUSINESS

During the Track Record Period, the Group sourced certain generic and easy-to-make products from external producers. Given that the Group has in-house production capabilities together with the flexibility to outsource production for greater cost efficiency, the Directors believe that the Group is, and will continue to be, able to meet customer demands for its products.

The proportion of production that the Group outsources may vary from time to time depending on the overall number and complexity of jewellery produced in-house by the Company and peak seasons such as Christmas. External producers are chosen based on their operating history, reputation and scale of operations. Product samples from external producers are assessed for quality and finished products are subject to the Group's strict quality control standards and procedures including sample checking on physical characteristics. Defective products would be returned to external producers for rectification. Payment would only be made upon receipt of finished products with satisfactory workmanship and the Group typically does not place any deposit with or make any or advanced payment to the external producers. During the years ended 31 March 2017 and 2018, the Group sourced 36,388 and 33,998 simple jewellery pieces, respectively. Such simple pieces are not processed in the Group's production facility in Shenzhen, Guangdong Province, the PRC and are not counted in the Group's production capacity.

The following table sets forth the breakdown of the Group's finished goods production for FY2017 and FY2018:

	FY2017						FY2018					
	Revenue	Percentage of total	Cost of finished goods	Percentage of total	Quantity	Percentage of total	Revenue	Percentage of total	Cost of finished goods	Percentage of total	Quantity	Percentage of total
	HK\$'000	%	HK\$'000	%		%	HK\$'000	%	HK\$'000	%		%
Simple products from third parties	7,906	4%	3,998	3%	36,388	65%	11,780	7%	3,994	4%	33,998	57%
Manufactured products produced in-house	195,558	96%	139,574	97%	19,343	35%	161,240	93%	99,581	96%	25,572	43%
Total	203,464	100%	143,572	100%	55,731	100%	173,020	100%	103,575	100%	59,570	100%

During the Track Record Period, approximately 97% and 96% (in terms of value) of the Group's finished goods were produced in the Group's in-house manufacturing facilities, respectively. It should be noted that approximately 65% and 57% (in terms of quantity) of the Group's finished goods were simple products in the years ended 31 March 2017 and 2018, respectively. However, this is only in terms of quantity and does not represent value. In terms of finished goods costs, simple products represented only approximately 3% and 4% of total costs of finished goods in the years ended 31 March 2017 and 2018, respectively.

Additionally, during the Track Record Period, the total number of suppliers of simple products was 21 and 24, respectively. This means that each of these suppliers of simple products contributed less than 0.2% of the Group's purchases in the years ended 31 March 2017 and 2018, respectively, and is immaterial in nature.

BUSINESS

Mould production

The Group commences its production by creating moulds of its prototypes. First a rubber mould is pressed around the prototype. The prototype is removed and the rubber mould is injected with wax to create a wax mould of the prototype. These wax moulds are attached to a main wax stem on a wax tree. The wax tree is placed in a flask and a plaster cast of the wax mould and wax tree is made. The flask is then placed into a furnace to melt away the wax in it and leaves behind a hardened plaster mould, the cavities of which are in the shape of the prototype, connected together by a hollow stem.

Gold casting

The cavities in the plaster are filled with melted gold via the hollow stem. Once casting is completed, the plaster mould is removed and the jewellery pieces are removed from the gold tree.

Filing and laser welding

Gold jewellery pieces are filed to ensure smooth surface and refined shapes. As some of the Group's designs are more complicated and require combining several smaller parts to create the complete settings, the Group may also employ laser welding process during which high intensity laser beams are used to join smaller parts together.

Stone matching (where applicable)

Once gold casting is completed, the harvested jewellery pieces are sent to the stone matching department where the Group's experienced stone matching staff ensure stones have been correctly matched and assigned.

Stone setting (where applicable)

There are various techniques to set stones such as diamonds and gemstones into gold jewellery pieces, where appropriate. Apart from the usual prong setting technique, the Group also engages the micro-pave technique (微鑲) whereby relatively smaller stones, with the assistance of microscopes, are set in multiple rows over the entire surface of a jewellery piece to achieve eye-catching appearance.

Polishing

The jewellery pieces are then polished to ensure a smooth and shiny surface.

Electroplating (where applicable)

Polished jewellery pieces are sometimes electroplated to give them a different colour.

BUSINESS

Quality control

After each production stage is completed, the craftsmen handling the respective stage deliver the work-in-progress to the supervisor of the respective team who is responsible for sending the work-in-progress to a centralised “quality control team”. The quality control team is responsible for checking the quality of the process performed by the deliverer of the work-in-progress on hand before sending the same to the next production stage. As such, the Group ensures the entire production process is monitored and that quality control has been performed at each production stage. Upon completion of all production stages, the product will be sent to the quality control team who is then responsible for examining the completed product. The quality control team will perform an examination on the jewellery product’s overall quality and check to ensure the jewellery product is made according to the specifications stated in the relevant production order. Any item which fails to meet the Group’s specifications and quality standard would be sent back to the production team to repair before it is packed for delivery to the Group’s office in Hong Kong. For details regarding the Group’s quality control, please refer to the sub-section headed “Quality control” in this section.

Packaging and delivery

Jewellery products which have passed the quality control inspection are carefully packed. Designated staff are responsible for the transportation of jewellery products to and from the Shenzhen production facility, the office and retail stores in Hong Kong. The jewellery products in transit are covered by relevant insurance policies. The Group engages third parties to chauffeur staff carrying the jewellery products to the office and/or retail stores in Hong Kong.

QUALITY CONTROL

The Group’s jewellery products are subject to strict in-house quality control monitoring. The Group conducts sample checking on physical characteristics of finished jewellery products to ensure that they meet the Group’s quality standards. Quality control is led by members of the Group’s senior management including the head of wholesale and retail department, Mr. Yung, who possesses over 20 years of industry experience.

The Group’s jewellery components are sourced from suppliers of good reputation. In general, diamonds weighing over one carat are supplied with certificates issued by the GIA. During the Track Record Period, the Group did not receive any material product returns or complaints.

PRICING

The Group has internal pricing and discount policies, which are set out and approved by the senior management, to govern the product pricing and discounts offered to customers. The sales teams are requested to strictly follow the discount policy. Extra discounts can only be offered to customers upon prior approval from the store managers or the executive Directors, depending on the discount rate offered.

BUSINESS

Prices of the jewellery products are generally determined by the cost of raw materials and finished goods, cost of casting work, weight and jewellery components contained in each of the products, styles, design, complexity and novelty of the design and the expected margin. The store managers, procurement department and the senior management review the market needs, costs of the materials and types of jewellery products and update the prices of the jewellery products from time to time to reflect the change of the market value of the jewellery products.

The Group generally adopts a pre-determined pricing policy to determine the prices for their jewellery products offered through retail sales channel and wholesale sales channel, respectively. In certain cases, the Group may adjust prices by giving different levels of discounts based on the quantity of purchases. In particular, it is the Group's policy to preset an offer price for each piece of jewellery product being sold and stick it with a price-tag for easy identification. In setting the offer price for each piece of jewellery product, the Group will firstly adopt a cost markup approach to derive the offer price to its retail and wholesale businesses where a predetermined price-multiple (which varies depending of the category of the jewellery product and the customer type) will be applied on the purchase cost of the product item, to derive its offer price (before offering any discount to customers). On the other hand, the actual selling price would depend on the negotiation between the Group's sales personnel and the retail or wholesale customers, based on their respective bargaining powers in the relevant transaction, where the Group will take into account the floor price (in terms of maximum discount against the offer price) of the jewellery products set by the management before arriving at the finalised discounted price of the jewellery product with the customers. As advised by the Directors, the negotiation outcomes depend on the expertise and experiences of the management and the sales personnel in dealing with retail and wholesale customers, as the case may be.

RETAIL

During the Track Record Period, the Group's network of eight branded retail stores are strategically located in Kowloon and the New Territories of Hong Kong. During the Track Record Period, the Group has retail presence in Tsuen Wan, Kowloon Bay, Shatin, Mongkok, Sham Shui Po, Hung Hom and Tuen Mun in Hong Kong. The gross floor area of the Group's retail stores is typically around 350-800 square feet. However, the store area in Hung Hom and Sham Shui Po are larger than typical retail stores, both being over 1,000 square feet.

BUSINESS

The following table gives a breakdown of the movement in the number of the Group's retail stores for the period indicated:

	Year ended 31 March	
	2017	2018
Number of retail stores at the beginning of the period	6	7
Number of retail stores opened during the period	1	1
Number of retail stores closed during the period	N/A	N/A
Number of retail stores at the end of the period	7	8

The following table sets forth the breakdown of the Group's revenue from its retail locations during the Track Record Period:

	Year ended 31 March							
	2017				2018			
	Revenue	Gross profit	Gross profit margin	Profit before tax contribution	Revenue	Gross profit	Gross profit margin	Profit before tax contribution
	<i>HK\$'000</i>	<i>HK\$'000</i>	%	<i>(Note 3)</i> <i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	%	<i>(Note 3)</i> <i>HK\$'000</i>
Kowloon Bay <i>(Note 1)</i>	34,856	10,167	29.2	587	31,703	11,953	37.7	1,964
Shatin	30,289	10,064	33.2	1,004	21,455	9,094	42.4	598
Tuen Mun <i>(Note 2)</i>	N/A	N/A	N/A	N/A	15,978	7,253	45.4	2,357
Sham Shui Po <i>(Note 2)</i>	21,958	6,342	28.9	1,532	16,357	6,146	37.6	2,040
Mongkok	14,413	5,283	36.7	1,932	13,384	5,894	44.0	2,990
Tsuen Wan	14,851	4,960	33.4	189	11,232	4,939	44.0	603
Hung Hom	5,766	2,759	47.8	501	3,203	1,815	56.7	234
Total	122,133	39,575	32.4	5,746	113,312	47,094	41.6	10,786

Notes:

- (1) The two retail stores in Kowloon Bay are located at the same shopping mall. Due to their close proximity and synergy effect, combined point of sale system is used for both stores and the Group internally classifies the two retail stores as one store internally. Thus, they are treated as one unit for the purpose of this analysis.
- (2) The retail store in Sham Shui Po was not in operation until April 2016 and the retail store in Tuen Mun was not in operation until April 2017.
- (3) Profit before tax contribution by shop assumes the respective shop's rental and staffs costs are subtracted from the respective shop's gross profit.
- (4) The gross profit margin for Hung Hom store is higher than other stores as it focused only on gem-set jewellery products and not pure gold products.

BUSINESS

- (5) During the Track Record Period, other than the Hung Hom store, the annual revenue per store area ranged from approximately HK\$20,000 per square foot to HK\$43,000 per square foot in the year ended 31 March 2017 and approximately HK\$15,000 per square foot to HK\$38,000 per square foot in the year ended 31 March 2018. The annual revenue per store area for the Hung Hom store was approximately HK\$5,200 per square foot and approximately HK\$2,900 per square foot in the years ended 31 March 2017 and 2018, respectively.

The Group's retail sales volume was approximately 34,000 unit and 35,000 unit for the years ended 31 March 2017 and 2018, while for the same period, the retail average selling price was approximately HK\$3,600 and HK\$3,200, respectively.

Sales management and review

At Group level, the Group is able to monitor sales and inventory through its IT system. At the retail store level, the store manager conducts a daily review of sales, operation and inventory. The Group's senior management meet with store managers on a monthly basis to review the overall sales, operation and inventory of the Group.

Retail network strategy

The Group selects sites for retail stores based on certain key criteria that include level of pedestrian traffic, proximity of competitors and physical characteristics of the site. The Group's historical customer base has been local Hong Kong customers. However, the Directors consider PRC tourists to be a potential for future growth and in light of recent growth in tourists (including PRC tourists) in the first three months of 2018, which led to growth in retail sales value of jewellery, watch and clocks products during the same period, the Group may consider locations with heavy pedestrian traffic or popular with PRC tourists. In particular, the proposed new store location selected by the Group is in West Kowloon, which includes major tourist hubs, such as Tsim Sha Tsui, Mongkok and Yau Ma Tei. According to Frost & Sullivan, these districts have the most numbers of hotels and numbers of rooms in Hong Kong. Therefore, a new store in this location would be ideal for the Group to capture the potential growth from PRC tourists. The Group does not work with any tour operators nor pay any commissions to tour operators who bring tourists to its retail stores. The Group currently does not have plans to operate its business online.

Bespoke jewellery services

The Group provides bespoke jewellery services to customers who wish to purchase particular diamond or gemstone components of the existing jewellery products but to re-set such components into their preferred design. The Group strategically placed bespoke craftsmen within its Kowloon Bay and Shatin retail stores to perform bespoke stone-setting, repair or resizing services while the customers wait. Such services are offered on a complementary basis for the Group's own jewellery products.

WHOLESALE

During the Track Record Period, the Group conducted wholesales of its jewellery products to other jewellery retailers in Hong Kong, who are predominantly independent jeweller retailers in Hong Kong and may also have operations in Macau. The Group is also a supplier of gold products to a top-tier jeweller in Hong Kong.

BUSINESS

The Group's wholesale operations are managed by the Group's head office. The Group's wholesale staff will visit the independent jeweller retailers with samples of the Group's latest jewellery designs on a regular basis to take their orders. The Group may also be commissioned by certain jewellery retailers to produce gem-set jewellery on a monthly basis.

During the Track Record Period, the Group also conducts sales to certain customers at the Group's head office directly. These customers usually know the executive Directors or senior management during social events and industry exhibitions or are referred to by the Group's retail stores, who are generally individuals who wish to purchase jewellery products from the Group or make repeated purchases of jewellery products in a private location. As such sales are not conducted at the retail stores, these are categorised as wholesale revenue.

TRADING OF RECYCLED GOLD PRODUCTS

In line with industry practice, the Group will purchase recycled gold products from the general public regardless whether such recycled gold products were originally purchased from the Group or not. Such recycled gold products will be collectively sold to customers without processing such as Customer A (also known as Supplier C), being general traders who purchase recycled gold products from the Group on a regular basis. To the best knowledge of the Directors, customers such as Customer A will generally in turn sell such recycled gold products to goldsmiths to be melted into gold bars for use as raw materials for production of gold products.

For the years ended 31 March 2017 and 2018, the sales of recycled gold products to customers such as Customer A (also known as Supplier C) amounted to approximately HK\$12.4 million and HK\$13.9 million, respectively, representing approximately 6.1% and 8.0% of the Group's total revenue for the respective year.

The Directors are of the opinion that the purchase of recycled gold products from the general public, including recycled gold products not previously sold by the Group, would enhance customer relationship and loyalty, and attract potential customers to visit its retail stores to trade in recycled gold products for new jewellery products of the Group.

MARKET AND COMPETITION

According to the Frost & Sullivan Report, there are a number of market players from small independent stores to large scale chain stores participating in the jewellery retail and wholesale market in Hong Kong, and the market is relatively concentrated with the top five players capturing approximately 58.2% of the market share as of 31 March 2017. The Group ranked 10th and contributed to approximately 0.3% of the total jewellery retail and wholesale market in Hong Kong in terms of retail and wholesale sales value for the year ended 31 March 2017. The Group focuses on design, production, retail and wholesale of its own products to tap the mass market customer segment in Hong Kong. The Directors consider that competition in the Group's target market principally comes from (i) retailers of self-designed jewellery products; and (ii) jewellery chain store operators whose competitive advantages are their jewellery design, quality and variety of products offered. Should the Group be unable to differentiate its jewellery product quality and meet the needs and preferences of potential customers satisfactorily as compared to its competitors, the sales performance and operating

BUSINESS

results of the Group may be adversely affected. The Directors believe that there are certain entry barriers to the jewellery industry, as the jewellery industry in Hong Kong is based upon industry reputation on good track record of products and services provided to existing customers and experiences in handling design and manufacturing procedures, which take a considerable amount of time to accumulate. The jewellery industry is also largely dependent on established business networks and trust, which may be an entry barrier to new entrants. Further, staff equipped with in-depth knowledge about jewellery, characteristics of diamonds, gemstones and precious metals, skilled in design and craftsmanship are vital and valuable to the business. Such skilled labour may be relatively expensive to hire and may be hesitant in considering moving to newly established businesses.

The Directors consider that jewellers in Hong Kong typically compete on the basis of reputation in the jewellery industry, design and craftsmanship, manufacturing capability, quality consistency and pricing. The Group strives to distinguish itself over its peers through the Group's ability to offer competitive edges that encompass not only on production capability, quality craftsmanship and design capability, but also affordability.

The Directors believe that the Group's principal competitive advantages over its competitors are set out in the sub-section headed "Competitive strengths" in this section.

SUPPLIERS

The Group's major suppliers are suppliers of raw materials, in particular, gold and diamonds. During the Track Record Period, the Group's five largest suppliers mainly included trade dealers and wholesalers of diamonds, gemstones and gold in Hong Kong.

The Group's largest supplier during the Track Record Period was a gold supplier in Hong Kong, who has been engaging in the gold trading business for more than six years and the Group typically settles payment upon placing orders or upon delivery. For purchases of gold from the Group's other major suppliers, the Group typically settles the payment on delivery.

For the years ended 31 March 2017 and 2018, purchases from the Group's five largest suppliers amounted to approximately HK\$84.9 million and HK\$58.6 million, respectively, representing approximately 56.0% and 52.5% of the Group's total purchases, respectively. Purchases from the largest supplier for the years ended 31 March 2017 and 2018 amounted to approximately HK\$46.2 million and HK\$31.2 million, respectively, representing approximately 30.4% and 30.6% of the Group's total purchases. Most of the Group's purchases were settled in HKD, RMB or USD by way of cheques.

The Group has well-established relationships with its major suppliers. The Group's five largest suppliers during the Track Record Period had maintained an average of approximately five years of business relationship with the Group. During the Track Record Period, one of the Group's top five suppliers was also the Group's customer. Details of the transaction with such supplier who is also one of the Group's major customers are set out in the section "Business — Suppliers — Entities who are the Group's major customers/suppliers and also the Group's suppliers/customers" in this prospectus.

BUSINESS

The following tables set forth certain information about the Group's five largest suppliers during the Track Record Period:

For the year ended 31 March 2017

Supplier	Principle business	Location	Major types of raw materials/products sold to the Group	Typical credit terms and payment	Approximate length of business relation with the supplier	Amount of purchase	Approximate percentage of the total purchases of the Group for the year
				<i>days</i>	<i>years</i>		<i>HK\$'000</i>
Supplier A	Trading of commodity	Hong Kong	Gold	Cash on delivery	6	46,217	30.4
Supplier B	Wholesale of diamond and jewellery	Hong Kong	Diamond	120	3	24,220	16.0
Supplier C	General trading	Hong Kong	Gold	Cash on delivery	12	7,708	5.1
Supplier D	Wholesale of diamond and jewellery	Hong Kong	Diamond	180	3	3,926	2.6
Supplier E	Importing, exporting and distributing of gemstones	Thailand	Gemstones	Cash on delivery	2	2,812	1.9
Total						<u>84,883</u>	<u>56.0</u>

For the year ended 31 March 2018

Supplier	Principle business	Location	Major types of raw materials/product sold to the Group	Typical credit terms and payment	Approximate length of business relation with the supplier	Amount of purchase	Approximate percentage of the total purchases of the Group for the period
				<i>days</i>	<i>years</i>		<i>HK\$'000</i>
Supplier A	Trading of commodity	Hong Kong	Gold	Cash on delivery	6	34,168	30.6
Supplier C	General trading	Hong Kong	Gold	Cash on delivery	12	12,994	11.6
Supplier D	Wholesale of diamond and jewellery	Hong Kong	Diamond	180	3	4,185	3.8
Supplier B	Wholesale of diamond and jewellery	Hong Kong	Diamond	120	3	4,150	3.7
Supplier F	Wholesale of diamond and jewellery	Hong Kong	Diamond	7	1	3,149	2.8
Total						<u>58,646</u>	<u>52.5</u>

BUSINESS

Entities who are the Group's major customers / suppliers and also the Group's suppliers / customers

For the years ended 31 March 2017 and 2018, to the best knowledge and belief of the Directors, one of the Group's five largest suppliers for the respective year/period, both being Supplier C (also known as Customer A), was also one of the Group's major customers. Supplier C principally engages in general trading and purchases recycled gold products from the Group. During the Track Record Period, due to its connection with goldsmiths, Supplier C also supplied gold to the Group. Revenue generated from Supplier C for the respective year was approximately HK\$12.3 million and HK\$13.9 million, respectively or 6.1% and 8.0%, respectively, of the Group's total revenue. During the same period, the Group's purchases from Supplier C were approximately HK\$7.7 million and HK\$13.0 million, respectively or 5.1% and 11.6%, respectively, of the Group's total cost of procurement.

The Directors believe that it is not uncommon for jewellery raw material suppliers to purchase recycled gold products from jewellers such as the Group as a customer.

Negotiations of the terms of purchases from and the sales of recycled gold products to general traders such as Supplier C was conducted on individual basis and the purchases and the sales were neither inter-connected nor inter-conditional with each other. The Directors confirmed that, during the Track Record Period, the raw materials purchased from Supplier C were not sold to Supplier C. The terms of transactions with Supplier C are in line with the market and similar to those transactions with the Group's other customers and suppliers.

To the best of the Directors' knowledge, during the Track Record Period, (a) all of the Group's five largest suppliers were Independent Third Parties; (b) save for Supplier C, none of the Group's five largest suppliers were also the Group's customer; and (c) none of the Directors, their respective close associates or any of the existing Shareholders who owned more than 5% of the Group's share capital had any interest in any of the Group's five largest suppliers.

CUSTOMERS

The Group's customers include:

- retail customers, generally walk-in in nature, and purchased products from the Group's retail stores;
- wholesale customers, including independent jeweller retailers in Hong Kong and other customers who purchases products at the Group's head office; and
- general traders such as Customer A (also known as Supplier C), pursuant to which the Group sold recycled gold products the Group purchased from the general public.

The Group does not offer credit term to its retail customers and all of the Group's sales contributed from retail sales were settled in HKD by way of cash or debit/credit card. For the Group's wholesale customers, the Group generally offers credit period of up to 90 days and payments are settled by cheques and cash. The Group does not offer credit term to customers such as Customer A, and sales were settled in HKD.

BUSINESS

The majority of the Group's customers are retail customers, who in aggregate contributed to approximately 60.0% and 65.5% of the Group's total revenue for the years ended 31 March 2017 and 2018, respectively. The Group's wholesale customers contributed to approximately 33.9% and 26.5% of the Group's total revenue for the years ended 31 March 2017 and 2018, respectively. The Group does not have any long term agreements, distributorship, franchising or consignment arrangement with any of its customers.

For the years ended 31 March 2017 and 2018, aggregate sales to the Group's five largest customers accounted for less than 30% of the Group's total revenue and amounted to approximately HK\$18.9 million and HK\$22.8 million, respectively, representing 9.3% and 13.2% of the Group's total revenue, respectively. Sales to the Group's largest single customer for the years ended 31 March 2017 and 2018 amounted to HK\$12.3 million and HK\$13.9 million, respectively, representing 6.1% and 8.0% of the Group's total revenue, respectively. The Group's largest single customer, being Customer A, a general trader, which mainly purchases recycled gold and other jewellery products from the Group. All of the Group's sales were settled in HKD by way of cash or debit/credit card.

To the best of the Directors' knowledge, during the Track Record Period and up to the Latest Practicable Date, (a) all of the Group's five largest customers were Independent Third Parties; (b) save for Customer A, details of which are further disclosed under the section headed "Business — Suppliers — Entities who are the Group's major customers / suppliers and also the Group's suppliers / customers" in this section, none of the Group's five largest customers was also the Group's supplier; (c) none of the Directors, their respective close associates or any of the Group's Shareholders who owned more than 5% of the Group's share capital had any interest in any of the Group's five largest customers.

CUSTOMER SERVICES AND RELATIONSHIP

Customer service being paramount to the Group and to the success of its business, the Group's goal is to deliver personalised customer service and to build on its relationship with its customers. The Group's sales staff are trained to handle all aspects of a shopping experience from the moment a customer enters a store to the eventual purchase of its products. The Group regularly assesses the performance of its sales staff to uphold the high quality and consistency in its customer services.

After-sales and maintenance services

The Group offers a number of after-sales services such as resizing of rings and polishing of bracelets on a complimentary basis (excluding any cost of additional materials). The Group also provides complimentary cleaning services. No provision for product warranty was made during the Track Record Period as after-sale services provided by the Group, such as resizing of rings, cleaning and polishing, incur only insignificant labour costs.

Sales return

Generally, the Group adopts a no-sales-return policy, including those wholesale of jewellery products to other jewellery retailers and sales of recycled gold products to customers such as Customer A, except for the manufacturing defects of the jewellery products. There were no material refunds, returns or complaints related to product quality during the Track Record Period.

BUSINESS

Customer complaints policy

Any serious complaints that the Group receives will be handled by the Group's customer hotline or by a manager in the Group's retail stores, before being escalated for investigation. Upon full investigation, an incident report will be generated together with a plan of action containing rectification steps to prevent future occurrence. To ensure that the Group will continue to effectively deal with complaints, if any, the operation department will from time to time, if necessary, consult with legal advisers, to ensure the Group's customer complaints policy is up to date with the relevant laws and regulations. During the Track Record Period, the Group has not received any material complaints on the Group's products or services that have a material impact on the Group's business operations. The Directors also confirm that, there was no material misconduct in the Group's selling and marketing practice or otherwise which resulted in customer complaints which have not been settled or have been sentenced by the Consumer Council or other government authorities during the Track Record Period and up to the Latest Practicable Date.

MARKETING AND PROMOTION

The Group carries out marketing and promotional activities in order to stimulate customers' purchase and strengthen corporate image. To achieve its marketing objectives, the Group incurred advertising and promotional expenses which amounted to approximately HK\$1.6 million and HK\$2.2 million for the years ended 31 March 2017 and 2018, respectively, representing approximately 0.8% and 1.3% of the Group's revenue for the respective year/period. The Group's marketing and promotion activities include the followings:

Marketing for jewellery products

The Group deploys strategic planning and implementation of different advertising and promotional activities for its jewellery products according to different themes and festivals. Advertisements are placed by the Group through different means including printed promotional materials.

Customer reward scheme

In line with the practice of other jewellers in Hong Kong, the Group launched its customer reward scheme, that requires customers to make regular payments to the Group for 12 consecutive months in return for redemption certain of the Group's products, to attract customers. As an incentive, members of the scheme are eligible to join the Group's annual dinner reception, participate in a lucky draw held at the reception and redeem supermarket gift vouchers. Under this program, whilst there is no expiration for redemption of the Group's products for customers who have made regular payments for 12 consecutive months, customers who have not made regular payments for 12 consecutive months must redeem for the Group's certain products (equivalent to the amount that they have already contributed) within one month following the next coming Wong Tai Sin Festival (23rd day of the 8th lunar month of every year), or else their contributions would be treated as forfeited and treated as other income of the Group. During the Track Record Period, the Group had not recorded any forfeited income. The Directors confirm that the treatment of such unutilised contribution as forfeited by customers is in accordance with the terms of the membership program and such arrangement is in the

BUSINESS

ordinary and usual course of the Group's business, and in line with the practice of other industry players according to the Frost & Sullivan Report. For the years ended 31 March 2017 and 2018, customer deposits derived from the scheme amounted to approximately HK\$3.9 million and HK\$5.6 million, respectively. The revenue contributed by such membership program, which represents the value of redemptions, was approximately HK\$2.7 million and HK\$3.1 million in the years ended 31 March 2017 and 2018, respectively.

INVENTORY CONTROL

The Group's inventory comprises raw materials and finished goods. Raw materials comprise of diamonds, gemstones and precious metals whereas finished goods comprise the Group's jewellery products, including gem-set jewellery and pure gold products.

Through the point of sale ("POS") system, the Group's senior management are able to gauge the performance of each store and the respective stock information. They are also able to keep track of the operation data, such as the inventory levels of each retail store which facilitates the assessment of future demands of the Group's jewellery products. Reports are generated from the POS system on a daily and monthly basis by the finance and accounting department and relevant data is then inputted and integrated to the accounting system of the Group for the preparation of the financial statements.

The inventory level limit of each retail store is determined by the senior management with reference to the stock turnover and production lead-time, sales forecast of jewellery products, business and marketing plans for opening new retail stores and anticipated product prices. The senior management also arrange monthly meetings with the store managers to review the sales performance and the inventory level of each retail store. The senior management also review monthly reports on slow-moving and obsolete stocks, discuss and assess with the store managers for any appropriate method to enhance the marketability of these items including enhancing promotions, offering greater discounts and, if necessary, may consider whether stock provision is required. Through the above measures, the senior management and the procurement department may obtain the most up-to-date market information which facilitates the formulation of procurement and production plan, maintenance of adequate inventory level and approval of product requisition orders initiated by the store managers during the daily operations.

The jewellery products sold by the Group are mostly luxury consumer goods and the Group has adopted a strict inventory security policy. The security measures taken to safeguard the Group's inventories include:

- (i) a security system as required by the insurance company to be installed in the retail stores and the premises of the Group including the alarm system, vault, and 24 hours surveillance system;
- (ii) insurance coverage against any loss or theft on inventories within the retail stores and the Group's premises or in transit;

BUSINESS

- (iii) daily stock count performed by the staff of each retail store under the supervision of the store managers. The stock count results are reported to the Group's accounts department on a daily basis. Any discrepancies are investigated and reported to the senior management; and
- (iv) full stock-taking is carried out quarterly and monitored by the accounts department. Discrepancies to the records of the POS system are investigated and reconciled.

During the Track Record Period, the Group did not encounter any material discrepancies between the physical stock counts and the records of the POS system.

INVENTORY MANAGEMENT AND PROVISION POLICY

The Group reviews the inventory level and status regularly through its POS system which records the Group's sales and inventory movements of each retail store and the Group's sales and inventory movement. For gold jewellery products sold by the Group, their costs will be allocated, according to material cost component and workmanship fee component for inventory record purpose, where the material cost component is accounted for by using weighted average cost basis while the workmanship fee component is accounted for using cost basis. The Group makes provisions for obsolete and slow-moving inventory items when they are identified as no longer suitable for use in sales or distribution based on monthly review of inventory report by the senior management, or when their underlying market value significantly deteriorates to lower than cost as determined by the Group's senior management with reference to the value, quality and condition of the jewellery components. Since the Group's jewellery products are produced in response to market trend and inventory turnover, the Group generally does not have a significant amount of slow-moving or obsolete inventory. In the event that there are slow-moving merchandises, the Group is usually able to boost their sales through promotional events, increase in discounts or other marketing measures.

INTERNAL CONTROL

The Group's internal control system and procedures are designed to meet its specific business needs and to minimise its risk exposure. The Group has adopted different internal guidelines, along with written policies and procedures to monitor and lessen the impact of risks which are relevant to the Group's business and control the Group's daily business operations. In order to ensure sound implementation of the Group's risk management and internal control systems, the Group has also adopted various on-going measures as set out below:

- the Group has engaged an internal control adviser to perform an internal control review on the Group. Following such review in December 2017 and a follow-up review in March 2018, the Group has adopted a revised operations and procedures manual which has included recommendations from the internal control adviser;
- the Group has improved its existing internal control framework by adopting a set of internal control manual and policies, which cover corporate governance, risk management, operations and legal matters;

BUSINESS

- the Group will engage an internal control adviser to perform internal control review upon the Listing, and such review is expected to be conducted annually in the fourth quarter of each year;
- the Group will assess and monitor the implementation of its internal control manual and policies by the relevant departments and companies in the Group through regular audits and inspections; and
- the Group will provide internal training to staff as appropriate in order to enable them to follow the internal control procedures.

Preventive measures against the purchase of counterfeit products or goods from illegitimate sources

In particular, in order to prevent the Group from purchasing counterfeit products or goods from illegitimate sources from the general public (the “**Public Seller(s)**”), the Group has implemented the following internal control measures:

- (a) In respect of any single purchase transaction with value amounting to HK\$120,000 or more, the Group’s retail store staff will request the Public Seller to provide his/her Hong Kong identity card number for record before purchasing any product from him/her;
- (b) The Public Seller will be required to sign on the invoice of the Group which will be imprinted with a confirmation statement stating that the products supplied by the Public Seller are genuine gold products and are from legitimate source, and that the Public Seller is liable to fully compensate the Group if any products subsequently found to be counterfeits and/or from illegitimate source;
- (c) Surveillance cameras have been installed in the Group’s retail stores to monitor the activities inside the stores, which can assist in identifying the Public Sellers. The Directors consider that the installation of surveillance cameras could have a threatening effect to the Public Sellers who plan to sell goods from illegitimate sources at the Group’s retail stores;
- (d) Whenever the Group becomes aware of particulars of stolen goods from other industry participants, the Group will circulate such particulars to its staff for checking whether any of those stolen goods has been purchased by the Group and alerting its staff not to purchase such items in future; and
- (e) The Group has also adopted internal control measures to prevent purchasing any counterfeit products. The Group has assigned experienced store managers to examine the products supplied by the Public Sellers and examination procedures have been in place to ensure all the collected gold products are genuine, up to the standard and in good quality before the completion of every transaction. The Group’s quality control staff will also prepare a quality control report which serves as a second check for the aforesaid criteria and the control for discovering any variance in weight of recycled gold products collected for further investigation.

BUSINESS

To the best of knowledge of the Directors, the Group has never experienced any incident regarding recycled gold products purchased by the Group being alleged to be from any illegitimate sources before or during the Track Record Period and up to the Latest Practicable Date. As confirmed by the Directors, the Group has never been subjected to any investigations, claims or legal proceedings in this regard.

Anti-money laundering

The Group has implemented the following internal control measures in relation to anti-money laundering:

- For wholesale business, customer assessment is required to be performed. Factors such as the seller's background, size of operations, payment ability, ability to re-sell are considered. The assessment is reviewed and approved by the Chairman;
- When collecting recycled gold products, all customers are required to sign on a declaration form declaring the gold products provided to the Company is genuine and from legitimate sources;
- For cash payment sales at the value of HK\$120,000 or above, customer's identification information should be recorded and "Know Your Client" check should be performed with the customer.

Cash management

The Group has implemented the following internal control measures on cash management related to retail sales:

- During business hours, cash is in custody of the designated cashier and stored in a locked drawer at the cashier kiosk. During non-business hours, cash is stored in the safe of respective retail stores.
- All cash payments collected from customers will be handed over by the salesperson to the cashier to store in the drawer of the cashier kiosk. CCTV with footage recording is installed in the retail store covering all key areas including the cashier kiosk.
- Cash count will be performed on a daily basis during the end of business by the cashier and reviewed and approved by the store manager. Subsequently, cash collected will be deposited to the bank on the next working day by the cashier.
- During daily end of business, the cashier will reconcile the sales income information from the Company's computer system against customer invoices, credit card vouchers, cancelled bills (if available) and cash collected. Such daily sales reconciliation will be performed by the cashier and reviewed and approved by the store manager.

BUSINESS

- Daily sales report will be sent to the head office for second checking by the head office accounting department.
- Bank reconciliation will be performed on a monthly basis by the accounts clerk and reviewed and approved by the authorised management.

The Group will continuously monitor and improve the Group's management procedures to ensure that effective operation of those internal controls are in line with the growth of the Group's business and good corporate governance practice.

Ms. Chan, the group account manager is responsible for overseeing the Company's internal control measures in relation to anti-money laundering and cash management.

INSURANCE

The Group maintains different types of insurance policies to cover its operations, including public liability, business interruption, property all risks, jeweller's block, motor vehicle, employee compensation and personal accident insurance. The Group reviews its insurance policies from time to time for adequacy in the breadth of coverage. The total insurance expenses for the years ended 31 March 2017 and 2018 amounted to approximately HK\$0.2 million and HK\$0.3 million, respectively.

RESEARCH AND DEVELOPMENT

During the Track Record Period and up to the Latest Practicable Date, the Group did not engage in any research and development activity.

HEALTH, WORK SAFETY, SOCIAL AND ENVIRONMENTAL MATTERS

Due to the Group's business nature, it is not subject to significant health, safety or environmental risks. To ensure compliance with applicable laws and regulations, the Group's human resources and administration department will from time to time, if necessary, consult with legal advisers, to ensure the Group's human resources policies are up to date with the relevant labour and safety laws and regulations.

The Group does not have formal protocols over social responsibility and environmental protection matters. The Directors believe the nature of the Group's business operations would not impose any serious threats to these concerns.

During the Track Record Period and up to the Latest Practicable Date, the Group did not experience any material accidents, claims for personal or property damage or compensation to employees and the Group did not experience any material non-compliance of health and work safety.

During the Track Record Period and up to the Latest Practicable Date, the Group had not been subject to any fines or other penalties due to non-compliance with health, safety or environmental regulations.

BUSINESS

INTELLECTUAL PROPERTY

As at 31 March 2018, the Group had one registered trademark and two domain names which are material to the business. Further details of the Group's intellectual property are set out in the section headed "Statutory and general information — Intellectual property rights of the Group" in Appendix IV to this prospectus.

The Group outsources certain of its product development stages to external graphic designers. Nonetheless, to protect the Group's intellectual property rights, the external graphic designers engaged by the Group are required to sign an agreement to acknowledge that the designs produced by them during their engagement are the intellectual properties of the Group. The Directors consider that its intellectual property rights are sufficiently protected.

The Directors confirm that there has not been any material infringement of the Group's trademark or designs as at the Latest Practicable Date. However, if there is any infringement of the Group's trademark or designs in the future, the Group's image and profitability may be adversely affected and the Group may take legal action against the third parties in respect of infringement of its intellectual property.

INFORMATION TECHNOLOGY

The Group has one main IT platform that supports its business operations, namely POS system. The IT platform was developed by Independent Third Party contractors to suit the Group's requirements and it is continually refined and upgraded to meet the Group's business needs.

The Group's POS system records sales and inventory movements as it is linked to every retail store. The Group's management is able to manage effectively the retail stores through the POS system which provides them with the performance of each retail store and its inventory status. With the ability of the Group's POS system to track the inventory movements in each retail store, the Directors are in a better position to assess what type of products are more popular in each retail store, which in turn enables the Group to respond more swiftly to market demands.

CASH FLOW MANAGEMENT

In general, cash received by the Group's retail stores is deposited into the Group's bank account on a daily basis. Sales reports are automatically generated by the IT system on a daily basis, enabling the Group's management to keep track of its operations and cash flow situation. Procurement, production and sales information tracked and monitored by the IT system enables the Group's finance department to monitor use of cash and liquidity. Monthly management accounts are provided to the Group's senior management and any unusual movements in the Group's cash position are highlighted and reported to the Directors.

BUSINESS

EMPLOYEES

As at the Latest Practicable Date, the Group had a total of 111 full-time staff including the executive Directors. Set out below is the number of staff of the Group by function as at the Latest Practicable Date:

	<u>Number of staff</u>
<i>Hong Kong</i>	
Senior management (including executive Directors)	5
Finance and accounting	5
Human resources and administration	2
Procurement ^(Note)	2
Quality control and maintenance	6
Retail and wholesale	50
<i>PRC</i>	
Craftsmen and technicians	25
Human resources and administration	6
Quality control, warehousing and logistics	<u>10</u>
	<u>111</u>

Note: As at the Latest Practicable Date, Ms. Cheung, one of the Group's executive Directors, is also the Head of the Group's procurement department.

The Group aims to create a strong sense of community and a motivating environment for its employees to enhance employee loyalty and work dedication. The Group believes that its ability to recruit and retain experienced and skilled labour is key to growth and development. The Group conducts its recruitment and does not appoint employment agents. The Group provides employee orientation to its new employees to explain the Group's internal rules and to enhance employees' safety awareness. The Group also provides various types of employee training regularly. The Group also provides trainings to new employees.

All of the Group's employees are employed under employment contracts which set out fully, among other things, the employees' responsibilities, remuneration and grounds for termination of employment. The remuneration package of employees includes salary, bonuses, allowances and/or commission. Sales staff are entitled to guaranteed commission based on retail sales amount, and will also be entitled to further commissions subject to whether they can meet the sales target laid out by the Group. Generally, employee salaries are determined based on the employees' qualification, experience, position and seniority. Overall, the Directors believe that the Group's remuneration package is competitive in the market.

The Group has maintained good working relationships with its employees and does not foresee any difficulties in the recruitment and retention of experienced staff. The Group has not experienced any strikes, labour disputes or other labour disturbances which have materially and adversely interfered with its business operations. During the Track Record Period and up to the Latest Practicable Date, there were no labour union established by the Group's employees.

BUSINESS

PROPERTIES

As at 31 March 2018, the Group does not own any property. As such, no single property interest forming part of the Group's non-property activities had a carrying amount of 15% or more of its total assets. Thus, this prospectus is exempted from compliance with the requirements of Rules 8.01A and 8.01B of the GEM Listing Rules and the requirements of section 342(1) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, with respect to the inclusion of a property valuation report in this prospectus.

Properties leased by the Group in Hong Kong

As at the Latest Practicable Date, the Group had leased eight properties in Hong Kong, the uses of which are for retail stores and office, respectively. Except for the leases in relation to the Group's head office and a retail store in Tsuen Wan district, details of which are set out in the section headed "Connected transactions" in this prospectus, all properties were leased by the Group in Hong Kong from Independent Third Parties. For details of the Group's retail stores, please refer to the section headed "Business — Retail".

The following table sets out a summary of the properties leased by the Group in Hong Kong for the use as retail stores and office as at the Latest Practicable Date:

Location	Years of operation	Approximate gross floor area (<i>sq.ft.</i>)	Term of lease	Monthly rental payment (<i>HK\$</i>)
<i>Retail store</i>				
Tsuen Wan	21	501	1 April 2018 to 31 March 2020	142,000
Kowloon Bay 1	19	338	1 June 2017 to 31 May 2019	79,000 ^{Note 1}
Kowloon Bay 2 ^{Note 2}	6	760	19 December 2016 to 18 December 2018	119,000 ^{Note 1}
Shatin	17	708	16 March 2017 to 15 March 2019	318,000 ^{Note 1}
Mongkok	16	355	10 October 2015 to 9 October 2018 ^{Note 3}	62,350 ^{Note 1}
Tuen Mun	1	481	1 March 2017 to 29 February 2020	72,150 ^{Note 1}
Sham Shui Po	2	1,080	8 April 2016 to 7 April 2019	55,000
<i>Office</i>				
Hung Hom	21	2596	1 April 2018 to 31 March 2020	105,000

BUSINESS

Notes:

1. Additional turnover rent is also payable.
2. The Group intends to renew the lease but has not commenced negotiation with the landlord.
3. The Group has commenced negotiation with the relevant landlord and reached an agreement in principle to renew the lease for three years, with a formal lease to be executed.

Property leased by the Group in the PRC

As at the Latest Practicable Date, the Group had leased one property in the PRC, the use of which is for the Group's production facility. The property is leased by the Group in the PRC from an Independent Third Party. The following sets out a summary of the property leased by the Group in the PRC as at the Latest Practicable Date:

Location:	Floor 5, Building 9, Sha Tau Kok Trade Zone, Yantian District, Shenzhen, the PRC (中國深圳市鹽田區沙頭角保稅區9棟5樓)
Approximate floor area (sq. ft.):	17,167
Term of lease:	1 January 2018 to 31 December 2018
Monthly rental payment	RMB31,899

The Directors confirm that none of the Group's property interests is individually material to the Group in terms of rental expenses.

LICENCES AND PERMITS

The Directors confirm that, as at the Latest Practicable Date, there were no material breaches or violations of laws or regulations applicable to the Group that would have a material adverse effect on its business or financial condition taken as a whole. As at the Latest Practicable Date, the Group had obtained all material licences and permits necessary for its business in Hong Kong. The Directors have confirmed that the Group has complied with all applicable laws and regulations as set out in the section headed "Regulatory overview" in this prospectus during the Track Record Period and up to the Latest Practicable Date.

As advised by the legal advisers to the Company as to the PRC law, the Directors confirm that during the Track Record Period and up to the Latest Practicable Date, the Group had obtained all the necessary permits, certificates and licences for the Group's manufacturing business in the PRC.

BUSINESS

TAX INCIDENT

I. Background

In the year ended 31 March 2011, a field audit^(Note) was conducted by the IRD on *inter alia* the Group and its related companies, mainly concerning the retail/wholesale business of gold, jewellery and diamond products. The IRD's major findings of the field audit related to the fluctuating gross profit margin of such companies.

The IRD officers considered that the Group had generated a fluctuating and lower than the ordinary level of gross profit margin for the years of assessment 2004/05 to 2015/16 (the “**Years of Assessment**”). They found that the combined gross profit margin of the Group fluctuated between approximately 15.4% and 18.9% between these years of assessment.

II. Reasons for low gross profit margin

The IRD initially invited the directors (including certain members of the Former Management and existing Directors) of CFH Limited, CFJ Limited, KJJ Limited, WR Limited and CFJM Limited (each a “**Targeted Company**” and collectively referred to as the “**Targeted Companies**”) to an interview in April 2012 and subsequently and continually requested documents from the Group such as management accounts, bank statements and invoices, etc. During the course of the tax field audit, the IRD became focused on the gross profit of the Group and began requesting more documents in this area such as breakdowns on sales and related party transactions of the Targeted Companies. Based on the practical experience of the Tax Representative, it is common in field audit cases for the IRD to be focused on the gross profit margin of similar companies without necessarily finding any issues beforehand. While the IRD was of the view that the gross profit margin for the years of

Note:

The IRD implements an assessing system called “Assess First Audit Later” for profits tax returns (the “**AFAL System**”). Under the AFAL System, profits tax returns which were assessed by IRD may be selected for conducting post assessment tax field audit and investigation. The IRD had commenced the field audit without providing a reason to the Group. According to paragraph 30 of IRD's latest Departmental Interpretation and Practice Notes No. 11 (Revised) dated October 2007, selection of cases for field audit by IRD could be simply on a “random” basis, i.e. without any reason at all. To the best knowledge and information of the Directors, the relevant Group companies were selected randomly for post assessment tax field audit and investigation.

The IRD also issued notices of assessment to the relevant Group companies in relation to each year of the Years of Assessment. As advised by a reputable international accounting firm engaged by the Group (the “**Tax Representative**”), as the IRD can only issue a notice of assessment within six years of the relevant year of assessment, the IRD will in practice, issue assessments for a particular year of assessment before it is time-barred so as to protect its potential revenue. These assessments are commonly known as “protective assessments”. Upon receipt of the IRD's protective assessments, the taxpayer is entitled to lodge objection against the protective assessments.

When the IRD case officers and the taxpayer have basically reached an agreement on the discrepant issues, the taxpayer is asked to submit a settlement proposal to specify, for each year of assessment concerned, the amount of additional assessable profits or income (i.e. the difference between the profits originally returned and the profits agreed following the field audit), which is usually supplemented by a detailed computation of the adjustments proposed by the IRD case officers and agreed by the taxpayer.

BUSINESS

assessment was fluctuating and lower than ordinary level, the IRD did not provide reasons for such a view. The Directors are of the view that the pricing policy of the Group is purely a business/commercial decision that takes into account various factors, including the economic situation, bargaining power of the customers, the countries in which we do business as some countries accept higher price for our products and some do not.

From the year ended 31 March 2011 to the year ended 31 March 2017, the IRD issued to the Targeted Companies additional profits tax assessments in an aggregate amount of HK\$10,216,000 relating to the years assessment 2004/05 to 2010/11. The Targeted Companies lodged objections with the IRD against these additional assessments. Based on individual notices that were delivered to the Targeted Companies each Year of Assessment from the year ended 31 March 2012 to the year ended 31 March 2017, the IRD agreed to hold over unconditionally an amount of approximately HK\$10 million in response to the objections lodged by the Targeted Companies.

Finally, in around September 2017, the Group decided to negotiate with the IRD for a compromise settlement with a view to closing the tax field audit case which had been conducted for more than six years. The IRD found that the combined gross profit margin of the Group based on the separate financial statements of the Targeted Companies as provided fluctuated between approximately 15.4% and 18.9% during the Years of Assessment. As part of the settlement process, the Group communicated with the IRD that intercompany and related party transactions are included in such range and should be removed. The IRD calculated the adjusted gross profit margin of the Targeted Companies on a consolidated basis for each of the Years of Assessment (the “**Adjusted Gross Profit Margin**”). The Adjusted Gross Profit Margin for the Targeted Companies on a consolidated basis ranged from 22.2% to 31.5% during the Years of Assessment. It was subsequently agreed between the IRD and the Group that the average gross profit margin of the latest four years, i.e. FY2013 to FY2016, being 27.69%, was taken as the projected margin for ascertaining the additional profit/tax to be charged (the “**Projected GP Margin**”). Additional tax was charged for each year of assessment that the Group did not maintain an Adjusted Gross Profit Margin of at least the Projected GP Margin. Accordingly, out of a total of twelve years of assessment, there was a difference in the Projected GP Margin and the Adjusted Gross Profit Margin for eight years of assessment. Based on the practical experience of the Tax Representative, this “projection” method is a common approach applied by the IRD for field audit settlement.

During the course of negotiation with the IRD, the IRD also agreed to accept certain downward adjustment on the Projected GP Margin for the relevant years taking into account the relatively lower margin for the sale of gold products in early years of the Years of Assessment due to the then mechanism of retail gold price fixing by the Hong Kong Jewellers’ and Goldsmiths’ Association.

Based on the above, the additional tax payment as a result of the tax incident was due to the difference in Projected GP Margin as compared with the historical Adjusted Gross Profit Margin. Accordingly, even after the year of assessment 2012/13 (i.e. even after 2013), there was still additional tax payable that was required to be paid. The IRD did not indicate to the Group what would be considered an ordinary level gross profit margin. The settlement formula was negotiated by the Group with the IRD without consideration of what was considered an ordinary level gross profit margin. Accordingly, there had been no disagreement between the Group and the IRD.

BUSINESS

The Former Management

Certain pricing decisions made by the then three directors of the relevant Group companies (the “**Former Management**”) contributed to the relatively lower gross profits of the Trading Business particularly for the years prior to the year ended 31 March 2014. Two of the directors managed two to three retail shops individually and the remaining director was in charge of the Group’s PRC operations and wholesale business. Mr. Fu and the Former Management initially agreed on the general pricing policy of the products of the Group. If a customer bargains for a lower price for a particular product, and the extent of price reduction sought by the customer exceeds the authority of the shop manager, the shop manager will seek approval from the Former Management. The Former Management had been working for the Group for a long period of time and hence, gained Mr. Fu’s trust in them for having the authority in conducting transactions without Mr. Fu’s further approval as long as the transactions were profitable and at arm’s-length. The Former Management made the price reductions because the customers, who were Independent Third Parties, were long term customers and the discounts may lead to further repeat business. As a result of this mechanism, the pricing decision made by the Former Management in relation to certain customers led to lower gross profit margin, as any price reduction will have a negative impact on the gross profit margin of that particular product. The Company is of the view that the Former Management maintained that the sales transaction they were responsible for were profitable and at arms-length, but was challenged by IRD to be low and fluctuating without providing a clear reason. Mr. Fu was not aware that the gross profit margin was low in the eyes of the IRD until he was notified by the IRD. The Former Management left their directorships of the relevant Group companies, in September 2012, December 2012 and October 2014 for personal reasons and to further their own careers, respectively. As the benchmark Projected GP Margin of 27.69% was set by the IRD during the settlement negotiation in 2017, the Former Management also would not have known that the profit margin was also low in the eyes of the IRD at the time.

For the avoidance of doubt, Mr. Fu was aware that the Group’s gross profit margin was fluctuating, but Mr. Fu was not/could not be aware that the Group’s fluctuations in gross profit margin would be an issue to the IRD, because:

- Mr. Fu was of the view that mere fluctuations in gross profit margin of a business is not in breach of Hong Kong laws and based on legal advice obtained by the Company (see sub-section headed “Tax incident — Due Dilligence” in this section), remains of the view that mere fluctuations in gross profit margin of a business is not in breach of any particular Hong Kong law; and
- the pricing policy of a business is a commercial/business decision taking into account various factors including the existing economic and market situation and the bargaining power of customers at the time, etc. Generally, the Group’s products were sold at cost-plus basis. The Former Management had the authority in conducting transactions at a discount without Mr. Fu’s further approval as long as the transactions were profitable and at arm’s-length.

III. Compromised settlement proposal

Against this background and following subsequent negotiations with the IRD, a preliminary settlement proposal for the Years of Assessment was discussed with the IRD. A compromised settlement was reached with the IRD, with an additional tax payable of HK\$3,618,100 and penalty and holdover interest of HK\$5,667,490 (including holdover interest of HK\$252,490), as a full and final settlement of the whole case for the Years of Assessment. On 24 January 2018, the IRD issued the revised assessments for the Years of Assessment in accordance with compromised settlement. Further on 28 February 2018, the IRD issued letters to the Targeted Companies confirming the total penalty for the whole field audit case at HK\$5,415,000.

As a result, additional tax provision of HK\$3,618,100 and additional other payments of HK\$5,667,490, included as other gains or losses, were recognised for the year ended 31 March 2017, which is the year that the Directors concluded these liabilities probable. Accordingly, both the Reporting Accountants and the Directors concluded that the accounts for the the year ended 31 March 2017 should be adjusted by the subsequent agreement with the IRD in relation to the tax provision and penalty amounts, in accordance with relevant accounting standards.

IV. Legal consequences including potential maximum penalties and other financial liabilities

In relation to (i) any tax computation containing incorrect information (“**Incorrect Information**”); and (ii) the filing of tax return containing the Incorrect Information, each of the companies and/or its directors may be subject to the following:

- Prosecutions under section 80(2) or 82(1) of the Inland Revenue Ordinance:
 - any person who without reasonable excuse files an incorrect return commits an offence under section 80(2) of the Inland Revenue Ordinance and is liable on conviction to a fine at level 3 (i.e. HK\$10,000) and a further fine of treble the amount of tax which has been undercharged as a result of the incorrect return, statement or information, or would have been so undercharged if the return, statement or information had been accepted as correct.
 - Any person who willfully with intent to evade or to assist any other person to evade tax omits from a return any sum which should be included commits an offence under section 82(1) of the Inland Revenue Ordinance is liable —
 - (a) on summary conviction to a fine at level 3 (i.e. HK\$10,000), a further fine of treble the amount of tax which has been undercharged in consequence of the offence or which would have been undercharged if the offence has not been detected and imprisonment for 6 months; and
 - (b) on indictment to a fine at level 5 (i.e. HK\$50,000), a further fine of treble the amount of tax which has been undercharged in consequence of the offence or which would have been undercharged if the offence has not been detected and imprisonment for 3 years.

BUSINESS

- Under sections 80(5) and 82(2) of the Inland Revenue Ordinance, the Commissioner of Inland Revenue may compound any offence in lieu of prosecution.
- Under section 82A of the Inland Revenue Ordinance, any person who without reasonable excuse makes an incorrect return by omitting or understating anything in respect of which he is required to make a return, shall, if no prosecution under section 80(2) or 82(1) has been instituted in respect of the same facts, be liable to be assessed to additional tax of an amount not exceeding treble the amount of tax undercharged as a result of the filing of the incorrect tax return.

Additionally, section 51C of the Inland Revenue Ordinance provides that any person carrying on a trade, profession or business in Hong Kong shall keep sufficient records in the English or Chinese language of his income and expenditure to enable the assessable profits of such trade, profession or business to be readily ascertained and shall retain such records for a period of not less than 7 years after the completion of the transactions, acts or operations to which they relate. The section sets out general requirement of records which should be kept. Any person who without reasonable excuse fails to comply with section 51C is liable on conviction to a maximum fine of HK\$100,000.

V. Remedial/rectification actions

- Mr. Fu took the tax field audit case seriously and had been cooperating with the IRD in providing the requested information to the IRD to facilitate the IRD's review and an early finalisation of the case. The Targeted Companies had submitted their financial statements, which were audited by local auditors every year, to the IRD with full disclosure of the gross profit margin.
- Considering that it was a controversial issue as to what gross profit margin would be considered as reasonable and in order to avoid a further protracted exchange of correspondences, the Group decided to negotiate with the IRD a compromise settlement in November 2017 as set out above.
- This resulted in a total amount of additional tax payable of HK\$3,618,100 for the Years of Assessment. In addition to the additional tax charged, the Group offered to pay an aggregate amount of compound penalty of HK\$5,415,000. Upon settlement of the case, holdover interest of HK\$252,490 was charged to the Group.
- The additional tax payable was recognised in tax provision and the penalty was recognised in "other gains or losses" for the year ended 31 March 2017 in the combined statement of profit or loss of the Group.
- As at the date of this prospectus, the Group had paid and settled the aggregate sum of HK\$9,285,590 in additional tax payable, compound penalty and holdover interest.
- As advised by the Tax Representative, the Directors understand the aggregate amount of tax, compound penalty and holdover interest of approximately HK\$9.3 million for the Years of Assessment is conclusive as demand notes for the same amounts have been issued by the IRD, in accordance with the settlement proposal submitted by the Targeted Companies for the field audit (which had been agreed by the IRD), in January and March 2018.

BUSINESS

The Company has appointed Mr. Chan, an independent non-executive Director, who was a former assistant commissioner of the IRD who will review the tax arrangements of the Group and will be responsible for handling any tax queries from the IRD. For details of the experience and qualifications of Mr. Chan, please refer to the section headed “Directors and senior management — Independent non-executive Directors — Mr. Chan Cheong Tat”.

VI. Due diligence

In view of the tax incident, the Group has engaged Ms. Queenie Ng (the “**Counsel**”) to provide a legal opinion on the tax incident and a reputable international accounting firm to provide advice to the Company.

Legal Counsel

The Counsel having reviewed the tax incident, was of the view, and the Sole Sponsor concurs, that Mr. Fu, Ms. Cheung and Ms. Fu have exercised their reasonable care, skill and due diligence that would be reasonably expected of a person carrying out such relevant functions and businesses of the Group, the tax reassessment is and should not cast doubt on their integrity, competence and suitability in fulfilling any fiduciary duties and duties of skill, care and diligence in performing their duties as a director/executive director or chairman of a listed company under Rules 5.01 and 5.02 of the GEM Listing Rules.

Additionally, in relation to the Former Management, because the pricing policy of a business is a commercial/business decision taking into account various factors including the existing economic and market situation and the bargaining power of customers at the time and there is no evidence of fraud or dishonest on the part of the Former Management, the Counsel was also of the view that the tax incident does not show that the Former Management had breached their duties of being a director under the laws and regulations of Hong Kong.

As advised by the Counsel, the Directors are of the view that having considered the penalty policy of the IRD, offences which do not involve willful evasion of tax will be dealt with administratively. Since the Targeted Companies have made a voluntary filing of the revised profits tax computation in relation to the relevant business for the Years of Assessment, the Directors, having taken advice from the Counsel, are of the view that the IRD will deal with it by compound in lieu of prosecution and re-assessment of profits tax.

Tax Representative

As advised by the Tax Representative, the Directors are of the view that:

- that in all circumstances of the case in relation to the Group for the Years of Assessment and in particular the absence of clear evidence of the Group’s intention to evade tax, section 82(1) of the Inland Revenue Ordinance should not be applicable.

BUSINESS

- based on the practical experience of the Tax Representative in handling field audit cases, the Directors are of the view that it is common for the IRD to make similar challenges on the level of gross profit margin and re-compute the potential tax undercharged for other companies in the retail industry as well as other industries in general.
- if the IRD makes similar challenges on the Group's gross profit margin in future years of assessment, the Projected GP Margin of 27.69% may not be necessarily applied because the settlement adjustment, particularly the Projected GP Margin of 27.69% was merely a compromise settlement adjustment taking into account the special circumstances of the field audit case of the Targeted Companies, which was made to settle the field audit case for Years of Assessment on a compromise basis, and that the IRD should charge tax on actual profits rather than by financial projection. Hence, there is no legal/technical basis for applying this Projected GP Margin to future years of assessment.
- the Targeted Companies were subject to penalty loadings from the IRD ranging between 107% and 127% of the tax undercharged. Based on the Tax Representative's practical experience, the Directors are of the view that the normal range of the penalty loading for field audit cases that are not settled within three months have penalty loading (including commercial restitution) between 110% to 150% of the tax undercharged. Accordingly, as the penalty loadings of the Targeted Companies are within this range, the Directors are of the view that the tax incident is not a serious offence.
- the penalty also includes HK\$280,000 for the Group's failure to keep business records under section 51C of the Inland Revenue Ordinance. No specific reason was provided or specific document was stated to be not provided by the IRD. It is the normal practice for the IRD to impose a penalty relating to section 51C of the Inland Revenue Ordinance in field audit cases. The penalty imposed in this regard may not be reflective of taxpayer's actual record keeping, particularly because the IRD generally applies a very high level of requirement on records and documents keeping during field audit exercise. The penalty represented approximately HK\$10,000 per relevant Targeted Company for each Year of Assessment. The maximum fine concerning Section 51C is approximately HK\$2.3 million, being HK\$100,000 per relevant Targeted Company for each Year of Assessment. Accordingly, the penalty of HK\$280,000, being 10% of the maximum penalty, reflects that the extent of the offence is not on the serious side. It should not cast doubt or have any negative impact on the competence of the Directors.
- based on the practical experience of the Tax Representative in handling field audit cases, the Directors are of the view that the length of the tax field audit of six years is not an exceptionally long period of time for similar tax field audits. It is common for tax field audits to span a long period of time as typically reasonable time is required for the company to retrieve the information requested by the IRD (which mostly related to back years) and also for the IRD to review such information submitted. In the Company's case, there had been changes in the IRD tax field audit teams, which also resulted in more lengthy audit period.

Additional due diligence

- While the IRD did not challenge nor make any finding in transfer pricing issues on the Group, the Directors and the Sole Sponsor in any event instructed an independent tax

BUSINESS

adviser to conduct a transfer pricing benchmarking sole study in accordance with the transfer pricing regulations of the PRC and Hong Kong. As at the Latest Practicable Date, the independent tax adviser found no material transfer pricing risk from both Hong Kong and PRC transfer pricing perspective.

- The Company engaged an independent search firm on 26 October 2017 to conduct a background search against Mr. Fu (including litigation and bankruptcy searches), in which there were no material negative findings on Mr. Fu, that may cast doubt on Mr. Fu's integrity, competence and suitability to act as a Director.
- The Sole Sponsor engaged another independent search firm over the course of March / April 2018 to conduct independent background checks on Mr. Fu as well as the other directors of the Company and its subsidiaries. Such reports also yielded no material negative findings, that may cast doubt on the Directors' integrity, competence and suitability to act as a Director.
- On 28 March 2018, directors' trainings were organised for all the Directors (including Mr. Fu), and the Sole Sponsor further conducted quizzes and interviews with all the Directors to ensure their respective understanding of the GEM Listing Rules and their respective responsibilities of acting as a director of a listed company on GEM. No material irregularities were noted through the quizzes and interviews.
- The Group has adopted and implemented the following measures to improve its corporate governance and enhance its internal control system:
 - All tax related matters of the Group will be handled by the Group's finance department which consists of the Group's accountant and other accounting staff. The Group's finance department will, on an annual basis, report to the Board on the compliance of applicable tax laws and regulations.
 - The Group has assigned designated staff to handle all tax related matters to ensure the tax returns are properly and correctly filed; and the Group has also engaged an international accounting firm as its tax representative who will review the tax returns before filing. The Group will also seek professional advice from external tax or legal advisers if necessary.

VII. Corporate governance and internal control measures

The Company already had the following internal control systems during the Years of Assessment:

- Written policies and procedures on pricing and discount and all prices and discounts are reviewed and approved by authorised management.
- 'Mystery Shopper' inspections - the Group would send new office staff to conduct test purchases at the Group's retail stores. This had led to the Company finding in one previous instance in December 2011 which discovered that a former employee had kept a portion of the proceeds of a sale personally after a sale transaction. The Group reported the incident to the police immediately upon the discovery of the employee's action.

BUSINESS

The Directors are of the view that the tax incident was not due to any deficiency in internal controls. In any event, Mr. Fu intends to take or have taken the following actions to further improve the internal control of the Group after the tax field audit:

- with respect to existing written policies on pricing and discounts, the Company will adopt a revised tiered discount approval system, whereby certain levels of discounts can be given by sales staff and sales managers. If a particular discount exceeds the level authorised to the sales manager, approval will be obtained from Mr. Fu up to a maximum level, with reference to the gross profit margin level.
- further, there will be additional focus on monthly financial analysis conducted by accounting staff, including review of monthly gross profit margin levels during mandatory monthly sales meetings.
- our Directors are of the view that this would help the Group to maintain a more consistent gross profit margin and would potentially minimise the risk of further similar challenges in the future.
- Deloitte Touche Tohmatsu was engaged as the auditor of the Targeted Companies as auditors to perform audit on their accounts from the year of assessment 2015/16 onwards and act as the tax representative for advising on the various Hong Kong tax matters.
- the Company will engage an external tax consultant upon Listing to advise the Group and provide assistance to the Company in relation to tax reporting matters.
- the Group hired a new accountant (Ms. Chan) as its group finance manager since 2016. For further details of Ms. Chan, please refer to the section headed “Directors and senior management — Senior management — Ms. Chan So Kuen” in this prospectus.
- the Company has appointed Mr. Chan, an independent non-executive Director, a former assistance commissioner of the IRD, who will review the tax arrangements of the Group and will be responsible for handling any tax queries from the IRD. For details of the experience and qualifications of Mr. Chan, please refer to the section headed “Directors and senior management — Independent non-executive Directors — Mr. Chan Cheong Tat” in this prospectus.
- the Company will have further internal policies in relation to record keeping, including regular internal checking to improve the standards of record keeping going forward. The Directors are of the view that this will also help to minimise the risk of further challenges on proper record keeping going forward.
- the Group engaged an internal control adviser to prepare an internal control review of the Group. Please see section headed “Business — Internal control” in this prospectus. During such review, no internal control deficiency was identified which resulted in lower gross margin incurred nor in the area of the Group’s record keeping pursuant to section 51C of the Inland Revenue Ordinance.

BUSINESS

- the Controlling Shareholders have also entered into the Deed of Indemnity with the Group in respect of, among others, potential tax liabilities in relation to the Group. Accordingly, if there are any further tax payments requested by the IRD in respect of this tax incident, the Group will be indemnified.
- the Company will appoint an external Hong Kong legal adviser to advise on compliance with the GEM Listing Rules and the applicable Hong Kong laws and regulations.
- the Company's Audit Committee will oversee the financial reporting and internal control procedures in accounting and financial matters to ensure compliance with the GEM Listing Rules and all relevant laws and regulations.
- Introductory training will be arranged for any newly appointed directors, company secretary or senior finance department personnel so as to discuss and study the relevant regulatory requirements in relation to directors' responsibilities and duties under the relevant laws and regulations.
- All senior management and employees of the Group will be required to promptly report to and/or notify the Directors of any non-compliance or potential non-compliance events.
- Meetings and trainings will be regularly arranged for senior management and employees of the Group to discuss and study regulatory requirements and latest updates thereof applicable to the Group's business operations.

Given that: (i) the reasonableness of the level of gross profit is subjective and controversial; (ii) the Group has reached settlement with the IRD; and (iii) such non-compliance incidents did not involve any dishonesty or fraud on the part of the Directors or senior management and sufficient preventive measures have been implemented by the Group, the Directors are of the view, and the Sole Sponsor concurs, that the Group's enhanced internal control and corporate governance measures in place are adequate and effective, and such non-compliance incidents should not affect the Directors' suitability under Rules 5.01 and 5.02 of the GEM Listing Rules or impugn on their integrity or competence.

LEGAL PROCEEDINGS AND REGULATORY COMPLIANCE

The Group's operations are subject to various laws and regulations in Hong Kong and the PRC. For further details, please refer to the section headed "Regulatory overview" in this prospectus.

Litigation and claims

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries had been engaged in any litigations, arbitrations or claims of material importance and no litigations, arbitrations or claims of material importance is known by the Directors to be pending or threatened by or against the Company.

BUSINESS

Save for the tax incident as further explained under the paragraphs headed “Business — Tax incident” in this section, the Directors are not aware of any material non-compliance of the Group under applicable laws and regulations during the Track Record Period and up to the Latest Practicable Date. The Directors are of the view that such incidents of non-compliance, whether individually or collectively, have not caused and will not have a material adverse effect on the Group’s business, results of operations and financial condition.

AWARDS AND RECOGNITION

The Group has received various awards in recognition of its services, which include the following:

<u>Award Year</u>	<u>Awards/Recognition</u>	<u>Awarding Institution/Authority</u>
1997	Quality Gold Mark	Hong Kong Jewellers’ and Goldsmiths’ Association Limited
2005	Quality Tourism Services Scheme Certification Mark	Hong Kong Tourism Board

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

OVERVIEW

Upon completion of the Share Offer and the Capitalisation Issue (taking no account of any Shares which may be issued upon the exercise of any options that may be granted under the Share Option Scheme), MGH Limited, which is wholly owned by Mr. Fu, Ms. Fu and Ms. Cheung, will be interested in 75% of the enlarged issued share capital of the Company. As such, Mr. Fu, Ms. Fu, Ms. Cheung and MGH Limited will be the Controlling Shareholders within the meaning of the GEM Listing Rules. For details, please refer to the section headed “History, development and Reorganisation” in this prospectus.

Mr. Fu is Chairman, CEO and executive Director, Ms. Fu and Ms. Cheung are executive Directors of the Company. For details of the background of Mr. Fu, Ms. Fu and Ms. Cheung, please refer to the section headed “Directors and senior management — Board of Directors — Executive Directors” in this prospectus. MGH Limited has not carried on any business since its incorporation save for the holding of Shares.

INDEPENDENCE OF THE GROUP

The Directors are of the view that the Group will be able to operate independently from the Controlling Shareholders and their respective close associates (other than the Group) after the Listing for the following reasons:

(i) **Management independence**

The Board comprises three executive Directors and three independent non-executive Directors. The Directors are of the view that they are able to operate independently from the Controlling Shareholders notwithstanding that Mr. Fu is Chairman, CEO and executive Director, Ms. Fu and Ms. Cheung are executive Directors of the Company for the following reasons:

- (a) the executive Directors, supported by experienced full-time senior management team, oversee the day-to-day management of the Group and are responsible for the operation of the Group’s business;
- (b) each of the Directors is fully aware of their fiduciary duties as director and will dedicate their time to the management of the Group;
- (c) the Directors believe the independent non-executive Directors bring independent judgment to the decision-making process of the Board;
- (d) the Directors shall not vote in any Board resolution approving any contract or arrangement or any other proposal in which he/she or any of his/her close associates has a material interest and shall not be counted in the quorum present at the particular Board meeting; and
- (e) Mr. Fu, Ms. Fu and Ms. Cheung have undertaken that if a conflict of interest situation arises, they shall (i) not vote or be counted in the quorum of any resolution of the Board unless so authorised by the Articles, (ii) refrain from being present during the relevant discussions at Board meetings, and (iii) play no part in the decision-making process of the Board.

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

Apart from the transactions set out in the sections headed “History, development and Reorganisation” and “Connected transactions” in this prospectus, the Directors do not expect that there will be any other significant transactions between the Group and the Controlling Shareholders upon or shortly after the Listing.

(ii) Operational Independence

Although the Controlling Shareholders will retain a controlling interest in the Company after the Listing, the Group has full rights to make all decisions regarding, and to carry out, the own business operations independently. Save for the leasing of certain properties from the Controlling Shareholders and/or his close associates; details of which are set out in the section headed “Connected transactions” in this prospectus, the Group does not rely on the Controlling Shareholders for its supply, business development, staffing, capital, equipment, intellectual properties or marketing and sales activities upon Listing. The Leased Properties (as defined in the section headed “Connected transactions” in this prospectus) used for the operations of the Group (i) were leased through the Tenancy Agreements (as defined in the section headed “Connected transactions” in this prospectus) which were entered into on normal commercial terms; and (ii) it would not be difficult for the Group to lease alternative premises in the same area on comparable terms, the Group’s operational independence would not be impacted. The Group has independent access to suppliers and customers and an independent management team to handle its day-to-day operations. Save for the above, the Company (through its subsidiaries) holds or enjoys the benefit of all relevant assets and resources necessary to carry on the Group’s businesses.

Having considered the above, the Directors are satisfied that they are able to perform their roles in the Group independently, and the Group is capable to operate independently from the Controlling Shareholders after the Listing.

(iii) Financial Independence

During the Track Record Period and up to the Latest Practicable Date, the Group had its own internal control, accounting and financial management system and function, independent treasury functions for cash receipts and payment and the Group makes financial decisions according to its own business needs.

As at 31 March 2017 and 31 March 2018, the Group’s amounts due to Dia Myth, a related party, was approximately HK\$12.7 million and HK\$11.3 million, respectively. The above amounts will be settled prior to Listing.

As at 31 March 2017 and 31 March 2018, the Group’s amounts due from related parties were approximately HK\$23.7 million and HK\$23.2 million, respectively, which primarily consists of (i) amounts due from Dia Myth of HK\$20.4 million and HK\$20.0 million as at the respective dates; and (ii) amounts due from Grand Rise Creation Limited (“**Grand Rise**”), a related party, of approximately HK\$3.3 million and HK\$3.2 million as at the respective dates. The above amounts will be settled prior to Listing.

As at the Latest Practicable Date, Mr. Fu had provided guarantee for certain of the Group’s bank borrowings. Dia Myth and Grand Rise, as Mr. Fu’s associates, have also provided charges or

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

mortgages over properties owned by them to secure certain of the Group's bank borrowings. CFJ Limited and CFH Limited also guarantee all of Dia Myth's bank borrowings. The above guarantees, charges and mortgages will be released upon Listing. The Directors believe that the Group is capable of obtaining financing from external sources without reliance on the Controlling Shareholders after the Listing.

Based on the above, the Directors believe that the Group has the ability to operate independently from the Controlling Shareholders and their respective close associates from a financial perspective and is able to maintain financial independence from the Controlling Shareholders and their respective close associates.

(iv) Independence from the Controlling Shareholders

The Controlling Shareholders and Directors confirm that they do not have any interest in a business, apart from the business of the Group, which competes or is likely to compete, directly or indirectly, with the Group's business, which would require disclosure under Rule 11.04 of the GEM Listing Rules.

DEED OF NON-COMPETITION

The Company entered into the Deed of Non-Competition with Mr. Fu, Ms. Cheung, Ms. Fu and MGH Limited on 26 September 2018 under which the Controlling Shareholders jointly and severally agreed not to, whether as principal or agent and whether undertaken directly or indirectly (including through any close associate, subsidiary, partnership, joint venture or other contractual arrangement of theirs) not to, (a) directly or indirectly, either on their own account, in conjunction with, on behalf of, or through any person, firm or company, among other things, in any form carry on, participate or be interested, engage or otherwise be involved in or acquire or hold shares or interests in (in each case whether as a shareholder, partner, agent or otherwise and whether for profit, reward or otherwise) or assist or support a third party to engage in or participate in the current and potential business engaged or to be engaged by the Group referred to in this prospectus including but not limited to design, production, retail and wholesale of jewellery products (the "**Restricted Business**") and where they become aware of such engagement of the Restricted Business they shall notify the Company forthwith; (b) solicit or procure any of the suppliers and/or the customers of the Group from time to time to terminate their business relationships or otherwise reduce the amount of business with the Group; (c) solicit or procure any of the directors, senior management or other employees of the Group from time to time to resign or otherwise cease providing services to the Group; and/or (d) unless with the prior written consent of the Company, disclose any confidential information of the Group to any other third parties.

Notwithstanding the above, the undertaking does not apply with respect to the holding of or being interested in, directly or indirectly, any shares in any company or business which competes, conducts or is engaged in, directly or indirectly, any Restricted Business, provided that:

- (a) the holding of shares or other securities issued by the Company or any of the subsidiaries from time to time;

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

- (b) the holding of shares or other securities in any company which has an involvement in the Restricted Business, provided that such shares or securities are listed on a recognised stock exchange and the aggregate interest of the Controlling Shareholders and their respective associates (as “interest” is construed in accordance with the provisions contained in Part XV of the SFO) do not amount to more than 5% of the relevant share capital of the company in question; and
- (c) the involvement or participation of the Controlling Shareholders in a Restricted Business has first been offered or made available to the Company and the Group in accordance with the Deed of Non-Competition and the Group, after review and approval by the independent non-executive Directors, has declined such opportunity to be involved in or to participate in the Restricted Business subject to any conditions the independent non-executive Directors may require to be imposed.

Options for New Opportunities

Each of the Controlling Shareholders has undertaken in the Deed of Non-Competition that during the term of the Deed of Non-Competition, if a new business opportunity which is, or is likely to be, in direct or indirect competition with the Restricted Business is made available to any Controlling Shareholder or its/his respective close associates, such Controlling Shareholder will or will procure that its/his associates will notify the Company in writing with such information that is reasonably necessary for the Company to consider whether or not to pursue such business opportunity (the “**Offer Notice**”). The Company is entitled to decide whether or not to take up such business opportunity within 15 business days from receiving the Offer Notice.

If the Company decides not to take up the new business opportunity for any reason or do not respond to the Controlling Shareholder and/or its/his respective affiliates (as the case maybe) within 15 business days from receiving the Offer Notice, such Controlling Shareholder or its/his affiliates may pursue such new business opportunity at their discretion, subject to compliance with the applicable requirements under the GEM Listing Rules.

The Board committee comprising only independent non-executive Directors (the “**Independent Board Committee**”) will be responsible for reviewing, considering and deciding whether or not to take up a new business opportunity referred to the Company by the Controlling Shareholders and/or their affiliates. When the Company receives the Offer Notice from the Controlling Shareholders and/or its/his associates, the Company will inform the Directors (including the independent non-executive Directors) and members of the Group’s senior management team in writing immediately and the executive Directors together with other senior management members of the Company will, within five business days of being informed of such business opportunity, present a written memorandum setting out an analysis of such business opportunity and their recommendation and proposals in respect of such business opportunity to an independent board committee of the Company, comprising only of the independent non-executive Directors who do not have a material interest in such business opportunity. The Independent Board Committee shall convene a meeting to consider such business opportunity and the recommendations and proposals presented by the executive Directors together with other senior management members of the Company and to decide whether to pursue or decline such business opportunity.

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

Further Undertakings from The Controlling Shareholders

Each of the Controlling Shareholders has further undertaken that:

- (i) it/he shall provide, or to shall procure its/his close associates to provide all information necessary for the annual review by the independent non-executive Directors with regard to the compliance with and enforcement of the Deed of Non-Competition;
- (ii) it/he agrees that the Company disclose decisions on matters reviewed by the independent non-executive Directors related to the compliance with and enforcement of the Deed of Non-Competition in the Company's annual report, or by way of announcement; and
- (iii) it/he will make an annual declaration to the Company and the independent non-executive Directors annually regarding its compliance with the Deed of Non-Competition for the Company to disclose in the Company's corporate governance report in the Company's annual report.

The Deed of Non-Competition will become effective upon Listing and remain in full force and be terminated upon the earlier of (i) the date on which the Shares cease to be listed on the Stock Exchange; or (ii) the date on which (a) the Controlling Shareholders, individually or collectively (whether or not with their respective close associates), cease to own, directly or indirectly, 30% or more of the then issued share capital of the Company (or such other percentage as may from time to time be specified in the Takeovers Code as being the level for triggering a mandatory general offer as required thereunder) and (b) the Controlling Shareholders, cease to control the composition of a majority of the Board, whichever occurs first.

CORPORATE GOVERNANCE MEASURES

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

- (i) the Company will provide to the independent non-executive Directors the Offer Notice delivered to the Company by the Controlling Shareholders within seven days of receipt;
- (ii) the Directors consider that the independent non-executive Directors have sufficient experience in assessing whether or not to take up the new business opportunities or exercise the Company's pre-emptive right. In any event, the independent non-executive Directors may appoint a financial advisor or professional expert to provide advice, at the cost of the Company, in connection with the exercise or non-exercise of the option or pre-emptive right under the Deed of Non-Competition;
- (iii) the independent non-executive Directors will review, on an annual basis, the compliance with the non-competition undertaking by the Controlling Shareholders under the Deed of Non-Competition;

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

- (iv) the Controlling Shareholders undertake to provide all information requested by the Company which is necessary for the annual review by the independent non-executive Directors and professional advisers of the Company with regard to the compliance with and enforcement of the undertakings contained in the Deed of Non-Competition;
- (v) the Company will disclose decisions on matters reviewed by the independent non-executive Directors relating to the compliance with and the enforcement of the non-competition undertaking by the Controlling Shareholders under the Deed of Non-Competition in the annual reports of the Company; and
- (vi) each of the Controlling Shareholders has undertaken to make an annual declaration on his/its compliance with the Deed of Non-Competition in the annual reports.

LOCK-UP UNDERTAKINGS

Each of the Controlling Shareholders has given certain undertakings to the Company, the Sole Sponsor, the Joint Lead Managers and the Underwriters, details of which are set out under the section headed “Underwriting — Undertakings pursuant to the Public Offer Underwriting Agreements” in this prospectus.

CONNECTED TRANSACTIONS

OVERVIEW

Pursuant to Chapter 20 of the GEM Listing Rules, the transactions that the Group enters into with its connected persons will constitute connected transactions upon the Listing.

CONNECTED PERSONS

Grand Rise is a company incorporated in Hong Kong with limited liability and principally engages in investment holding. Grand Rise is owned as to 100.0% by Mr. Fu, the Chairman, CEO, executive Director and one of the Controlling Shareholders. Grand Rise is therefore a connected person of the Company under Chapter 20 of the GEM Listing Rules.

Dia Myth is a company incorporated in Hong Kong with limited liability and principally engages in investment holding. Dia Myth is owned as to 96.02% by Mr. Fu, the Chairman, CEO, executive Director and one of the Controlling Shareholders and 3.98% by Ms. Fu, also an executive Director and one of the Controlling Shareholders. Dia Myth is therefore a connected person of the Company under Chapter 20 of the GEM Listing Rules.

FULLY EXEMPT CONTINUING CONNECTED TRANSACTIONS

Upon Listing, the following transactions will be regarded as fully exempt continuing connected transactions of the Group under Chapter 20 of the GEM Listing Rules.

Background

During the Track Record Period, the Group had been renting a premises for retail use at Shop 2, G/F incl. cockloft, Cheuk Ming Building, 22-26 Chuen Lung Street, 10-22 Tsuen Wan Market Street, Tsuen Wan, New Territories, Hong Kong (the “**Tsuen Wan Premises**”) and a premises for office use at Shop Nos. 6-13, Ground Floor Nos. 72, 72A, 72B, 72C, 72D, 74, 76 78, 82, 84, 86 and 88 Ko Shan Road and No. 9 Kiang Hsi Street, Kowloon, Hong Kong (the “**Faerie Court Premises**”, collectively, the “**Leased Properties**”). The tenancy agreements with regard to the Leased Properties were entered into by CFJ Limited, CFH Limited, KJJ Limited and WR Limited as tenants (as the case may be) and with Grand Rise and Dia Myth as landlord, respectively.

Tenancy agreement on the Tsuen Wan Premises

During the Track Record Period, the Group occupied the following property, which is solely owned by Grand Rise:

<u>Address</u>	<u>Floor area</u> (<i>sq.ft.</i>)	<u>Use of property</u>
Shop 2, G/F. incl. cockloft, Cheuk Ming Building 22-26 Chuen Lung Street 10-22 Tsuen Wan Market Tsuen Wan New Territories Hong Kong	501	Retail store use

CONNECTED TRANSACTIONS

On 1 April 2018, CFJ Limited (as tenant) and Grand Rise (as landlord) entered into a tenancy agreement, pursuant to which CFJ Limited agreed to rent the aforesaid property for a term commencing on 1 April 2018 and expiring on 31 March 2020 (both days inclusive) for a deposit of HK\$284,000 at a monthly rent of HK\$142,000 (exclusive of utility charges), which was agreed after arm's length negotiations between the parties with regard to the prevailing market rates. The total annual rent payable by CFJ Limited to Grand Rise for the lease of the Tsuen Wan Premises shall be HK\$1,704,000 for the year ending 31 March 2019 and HK\$1,704,000 for the year ending 31 March 2020.

For the years ended 31 March 2017 and 2018 and the aggregate amount of rents paid by the Group to Grand Rise for the lease of the Tsuen Wan Premises amounted to approximately HK\$1,320,000 and approximately HK\$1,320,000, respectively, which were lower than the then prevailing market rate as a special favor given by Mr. Fu.

Tenancy agreement on the Faerie Court Premises

During the Track Record Period, the Group occupied the following property, which is solely owned by Dia Myth:

<u>Address</u>	<u>Floor area</u> (<i>sq.ft.</i>)	<u>Use of property</u>
Shop Nos. 6-13, Ground Floor Nos. 72, 72A, 72B, 72C, 72D, 74, 76 78, 82, 84, 86 and 88 Ko Shan Road and No. 9 Kiang Hsi Street, Kowloon	2,596	For office use

On 1 April 2018, CFH Limited (as tenant) and Dia Myth (as landlord) entered into a tenancy agreement, pursuant to which CFH Limited agreed to rent the Faerie Court Premises for a term commencing on 1 April 2018 and expiring on 31 March 2020 (both days inclusive) for a deposit of HK\$210,000 at a monthly rent of HK\$105,000 (exclusive of utility charges), which was agreed after arm's length negotiations between the parties with regard to the prevailing market rates. The total annual rent payable by CFH Limited to Dia Myth for the lease of the Faerie Court Premises shall be HK\$1,260,000 for the year ending 31 March 2019 and HK\$1,260,000 for the year ending 31 March 2020.

For the years ended 31 March 2017 and 2018, the aggregate amount of rents paid by the Group to Dia Myth for the lease of the Faerie Court Premises amounted to approximately HK\$600,000 and approximately HK\$600,000, respectively, which were lower than the then prevailing market rates, which were around HK\$1,260,000 annually, as a special favor given by the Controlling Shareholders.

GEM Listing Rules implementation

Pursuant to Rule 20.74 of the GEM Listing Rules, the relevant applicable percentage ratios (as prescribed under Chapter 20 of the GEM Listing Rules) of the transactions contemplated under the tenancy agreements for the Leased Properties (the “**Tenancy Agreements**”) for each of the years

CONNECTED TRANSACTIONS

ending 31 March 2018 and 2019, on an annual basis, is less than 5% and the total consideration is less than HK\$3,000,000. Therefore, upon Listing, the transactions under the Tenancy Agreements constitutes *de minimis* continuing connected transaction under Rule 20.74 (1)(c) of the GEM Listing Rules and would be exempted from the reporting, announcement, annual review, circular and independent shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

The Group will comply with the relevant requirements under Chapter 20 of the GEM Listing Rule should there be any material change to the terms thereof or if the Group enters into any other connected transaction in relation thereto after Listing.

Confirmation from the Directors

The Directors (including the independent non-executive Directors) considered that the continuing connected transactions under the Tenancy Agreements as described above have been entered into in the ordinary and usual course of business of the Group and have been based on arm's length negotiations and on normal commercial terms that are fair and reasonable, the terms of the Tenancy Agreements as mentioned above are fair and reasonable and are in the interests of the Shareholders as a whole.

DIRECTORS AND SENIOR MANAGEMENT

SUMMARY INFORMATION OF THE DIRECTORS AND SENIOR MANAGEMENT

The following table sets forth information regarding current Directors and senior management.

Name	Age	Position/Title	Responsibilities	Date of initial appointment as Director	Date of joining the Group ¹	Relationship with other Directors and senior management
Executive Directors						
Mr. Fu Chun Keung (傅鎮強)	50	Chairman, CEO and executive Director	Supervising overall management and strategy planning of the Group and being responsible for its daily operation and management	11 January 2018	22 August 1997	Spouse of Ms. Cheung and younger brother of Ms. Fu
Ms. Cheung Lai Yuk (張麗玉)	45	Executive Director	Formulating the Group's business and corporate strategies	28 March 2018	23 December 1999	Spouse of Mr. Fu and sister-in-law of Ms. Fu
Ms. Fu Wan Ling (傅雲玲)	57	Executive Director	Formulating the overall strategy and supervising the administration of the Group	28 March 2018	22 August 1997	Elder sister of Mr. Fu and sister-in-law of Ms. Cheung
Independent non-executive Directors						
Mr. Chan Cheong Tat (陳昌達)	68	Independent non-executive Director	Supervising and providing independent judgment to the Board	26 September 2018	26 September 2018	Nil
Mr. Wong Wing Keung Meyrick (王泳強)	59	Independent non-executive Director	Supervising and providing independent judgment to the Board	26 September 2018	26 September 2018	Nil
Mr. Chan Chi Ming Tony (陳子明)	50	Independent non-executive Director	Supervising and providing independent judgment to the Board	26 September 2018	26 September 2018	Nil

Note: The date of joining the Group in respect of each of the Directors is the date he/she was initially appointed as a director of members of the Group.

DIRECTORS AND SENIOR MANAGEMENT

Senior management

<u>Name</u>	<u>Age</u>	<u>Position</u>	<u>Date of joining the Group</u> ^(Note)	<u>Relationship with other Directors and senior management</u>
Ms. Chan So Kuen (陳素娟)	43	Group account manager	15 August 2016	Nil
Mr. Yung Kam Keung (翁錦強)	50	Head of wholesales and retail department	29 November 2012	Nil

Note: The date of joining the Group in this table above includes the dates of joining members of the Group prior to the reorganisation of such members into the Group.

BOARD OF DIRECTORS

The Board currently consists of six Directors, comprising three executive Directors and three independent non-executive Directors. The term of service for Directors is three years, and Directors are permitted to be re-elected. Responsibilities of the Board include but are not limited to (i) convening Shareholders' meetings, reporting on the Board's work at these meetings, implementing the Shareholders' resolutions passed at these meetings; (ii) determining business operation, financial, capital and investment plans; (iii) determining internal management structure, setting down fundamental management rules; (iv) appointing and discharging members of senior management, determining Directors' remuneration and formulating the Group's proposals for profit distributions and for the increase or reduction of registered capital; and (v) taking responsibilities pursuant to the relevant laws, regulation and the Articles of Association.

Executive Directors

Mr. Fu Chun Keung

Chairman, CEO and executive Director

Mr. Fu, aged 50, is the Company's Chairman, CEO and an executive Director. Mr. Fu is the Group's major founder, and now responsible for supervising overall management and strategy planning of the Group as well as its daily operation and management. As one of the founders of the Group, Mr. Fu was appointed as (i) a director of CFH Limited for the periods from June 2000 to May 2015 and from August 2015 till present; (ii) a director of CFJ Limited for the periods from August 1997 to May 2015 and from August 2015 till present; (iii) a director of CFJM Limited for the periods from November 2003 to May 2015 and from August 2015 till present; (iv) a director of KJJ Limited from May 2012 till present; and (v) a director of WR Limited from November 2011 till present. He was appointed as Chairman, CEO and an executive Director of the Company on 11 January 2018.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Fu has over 20-year's experience in the jewellery industry and established the Group as a major founder with other individuals in 1997. Mr. Fu has been a supervisor of the Hong Kong Jewellers' and Goldsmiths' Association since 2013. Mr. Fu has been a member of Kowloon Chamber of Commerce (九龍總商會) since June 2017, and was elected as a director of the New Territories General Chamber of Commerce (新界總商會) for the period from 2016 to 2018. Further, Mr. Fu was admitted to membership of the Hong Kong Institute of Directors (香港董事學會) as fellow in October 2017. Mr. Fu has also been the honorary president of Hong Kong Xianyou County Clansmen Association* (香港仙遊同鄉會) since 2017. Mr. Fu completed his secondary school education in 1985.

Mr. Fu is the spouse of Ms. Cheung, an executive Director, and the younger brother of Ms. Fu, an executive Director.

Mr. Fu is not and has not been appointed as a director of any listed company in the past three years. Mr. Fu was the director of the following companies which were incorporated in Hong Kong and deregistered pursuant to section 291AA of the Predecessor Companies Ordinance. It is confirmed by Mr. Fu that the following deregistrations were made voluntarily by way of submitting an application to the Companies Registry of Hong Kong because these companies had ceased to carry on business or operation immediately before the relevant application.

<u>Name of company</u>	<u>Nature of business</u>	<u>Date of dissolution</u>
Smart Fine Holdings Limited (駿熙集團有限公司)	Investment holding	8 May 2009
Wiseda Hong Kong Trading Limited (智達香港貿易有限公司)	No business operation	22 June 2012

Mr. Fu confirms that the above companies were solvent at the time when they were being dissolved by deregistration. Mr. Fu also confirms that there is no fraudulent act or misfeasance on his part leading to deregistration of such companies and he is not aware of any actual or potential claim which has been or will be made against him as a result of the deregistration of such companies.

Mr. Fu was a director of the following company incorporated in Hong Kong that has been struck off:

<u>Name of company</u>	<u>Nature of business</u>	<u>Date of dissolution</u>
China Life-Creation Charity Funds Limited (中國創生慈善基金會有限公司)	No business operation	24 March 2017

Note: This company was struck off and dissolved due to its failure to file annual return to the Companies Registry of Hong Kong after 2013.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Fu confirms that the above company was solvent at the time when it was being struck off. Mr. Fu also confirms that there is no fraudulent act or misfeasance on his part leading to the strike off of the above company and he is not aware of any actual or potential claim which has been or will be made against him as a result of the striking off of the above company.

Mr. Fu was a director of the following company. A winding-up order was issued by court during the period when he was the sole director against such company:

Name of company	Principal business activity immediately before winding-up	Status	Details
Qinda K-Gold Company Limited (“Qinda K-Gold”)	Wholesale of gold products	A winding-up order was issued by court on 19 September 2012 and the winding-up process is still on-going as at the Latest Practicable Date	This was a Hong Kong incorporated company wound up under section 178(1)(a) of the Predecessor Companies Ordinance

Qinda K-Gold is owned as to 70% by Mr. Fu and 30% as to another shareholder (the “**30% Shareholder**”), respectively. A winding-up petition was presented by the 30% Shareholder against Qinda K-Gold on 12 July 2012 on the ground that Qinda K-Gold failed to repay a sum of HK\$750,000 being amount due to the 30% Shareholder. Qinda K-Gold had owed Mr. Fu a shareholder’s loan in the sum of approximately HK\$1,750,000 and a bonus payable to Mr. Fu in the sum of HK\$525,000 as at 31 March 2012.

It was alleged by the liquidators of Qinda K-Gold that (i) Mr. Fu withdrew a total sum of HK\$1,630,000 from the accounts of Qinda K-Gold during the period from 24 May 2012 to 11 July 2012 which constituted unfair preference pursuant to section 266 of the Predecessor Companies Ordinance (the “**1st Challenged Transactions**”); and (ii) Mr. Fu transferred karat gold inventory to a company controlled by Mr. Fu to set off amount due to Mr. Fu in the total sum of HK\$566,878.4 after the winding up which should be void pursuant to sections 182 and 184(2) of the Predecessor Companies Ordinance (the “**2nd Challenged Transactions**”).

Pursuant to a settlement agreement (the “**Settlement Agreement**”) entered into between Mr. Fu and the liquidators of Qinda K-Gold, Mr. Fu agreed to (i) pay HK\$700,000 to Qinda K-Gold; and (ii) relinquish all his rights to claim against Qinda K-Gold as a creditor in full and final settlement of any legal actions that could have been taken by the liquidators of Qinda K-Gold in relation to the 1st Challenged Transactions and the 2nd Challenged Transactions against Mr. Fu. Mr. Fu confirms that he has paid HK\$700,000 to Qinda K-Gold in accordance with the Settlement Agreement. Qinda K-Gold is currently still in the process of winding-up.

Save as disclosed above, as at the Latest Practicable Date, Mr. Fu, to his best knowledge and belief, was aware of no actual, potential or residual claims against him in connection with the winding up of Qinda K-Gold.

DIRECTORS AND SENIOR MANAGEMENT

The Directors (including the independent non-executive Directors) are of view, and the Sole Sponsor concurs, that Mr. Fu is suitable and able to perform his role as an executive Director under 5.01 and 5.02 of the GEM Listing Rules on the following bases:

1. There is no evidence of dishonesty or bad faith involved on the part of Mr. Fu in respect of the circumstances leading to the winding up of Qinda K-Gold for the following reasons:
 - The winding up of Qinda K-Gold is a shareholders' dispute in essence as the winding-up petition was presented by the 30% Shareholder instead of a third party creditor;
 - In respect of the 1st Challenged Transactions, given the fact that Qinda K-Gold had been in operation for a short period of time for less than two years when the winding-up petition was presented, it is impracticable to expect Mr. Fu to predict with any degree of certainty that Qinda K-Gold would be wound up within the next two years.
 - In respect of the 2nd Challenged Transactions, the relevant karat gold inventory was transferred at book cost to a company controlled by Mr. Fu due to the expiry of tenancy of Qinda K-Gold's office. As the Group required karat gold as raw materials in the ordinary course of business, it was natural for the Group to utilise the relevant available karat gold inventory first.
2. Mr. Fu has been cooperative with the liquidators of Qinda K-Gold during Qinda K-Gold's winding-up process;
3. Mr. Fu's experience and contribution to the development and growth of the Group since the beginning of the Group; and
4. Mr. Fu has attended the directors training provided by the Company's Hong Kong legal advisers which covered, among others, director's duties.

DIRECTORS AND SENIOR MANAGEMENT

Ms. Cheung Lai Yuk

Executive Director

Ms. Cheung, aged 45, is an executive Director. Ms. Cheung is the head of the Group's procurement department, and is responsible for formulating corporate and business strategies. Ms. Cheung was appointed as (i) a director of CFH Limited for the periods from June 2000 to July 2000 and from April 2002 till present; (ii) a director of CFJ Limited for the periods from December 1999 to July 2000 and from April 2002 till present; (iii) a director of and CFJM Limited, from September 2012 till present; and (iv) the legal representative and director of ZHJ Limited from November 2011 till present. Ms. Cheung was appointed as Director of the Company on 28 March 2018.

Ms. Cheung has over 20-year's experience in the jewellery industry and joined the Group since December 1999. Ms. Cheung completed her secondary school education in 1987. Ms. Cheung was awarded by the GIA a certificate for completing the requirements of the program in Diamond Essentials in November 2014, and a certificate for completing the requirements of the program in Diamonds and Diamond Grading as well as a diploma certificate for completing the diploma program in Graduate Diamonds respectively in January 2015.

Ms. Cheung is the spouse of Mr. Fu, the Chairman, CEO and executive Director, and sister-in-law of Ms. Fu, an executive Directors.

Ms. Cheung is not and has not been appointed as a director of any listed company in the past three years. Ms. Cheung is the legal representative and director of the following company, which has voluntarily submitted an application to deregister the company under applicable PRC laws during the period when she is the legal representative and director.

<u>Name of company</u>	<u>Principal business activity immediately before dissolution</u>	<u>Status</u>	<u>Details</u>
ZDHJ Limited	No business operation	As at the Latest Practicable Date, the deregistration procedure of ZDHJ Limited is still in progress.	This is a PRC incorporated wholly-owned subsidiary of the Group. On 29 December 2017, the sole shareholder of ZDHJ Limited passed a shareholder's resolutions to dissolve ZDHJ Limited.

DIRECTORS AND SENIOR MANAGEMENT

Ms. Fu Wan Ling

Executive Director

Ms. Fu, aged 57, is an executive Director. Ms. Fu is responsible for formulating the overall strategy, supervising the administration and overseeing the inventory of the Group. Ms. Fu is also a director of certain of the Group's subsidiaries, namely, (i) CFH Limited from June 2000 till present; (ii) CFJ Limited from August 1997 till present; and (iii) CFJM Limited from September 2012 till present. Ms. Fu was appointed as an executive Director of the Company on 28 March 2018.

Ms. Fu has over 20 years of experience in the jewellery industry and joined the Group since August 1997. Ms. Fu completed her secondary school education in 1978.

Ms. Fu is the elder sister of Mr. Fu, the Chairman, CEO and executive Director and the sister-in-law of Ms. Cheung, an executive Director.

Ms. Fu is not and has not been appointed as a director of any listed company in the past three years. Ms. Fu was the director of the following company which was incorporated in Hong Kong and deregistered pursuant to section 291AA of the Predecessor Companies Ordinance. It is confirmed by Ms. Fu that the following deregistration was made voluntarily by way of submitting an application to the Companies Registry of Hong Kong because this company had ceased to carry on business or operation immediately before the relevant application.

<u>Name of company</u>	<u>Nature of business</u>	<u>Date of dissolution</u>
Wiseda Hong Kong Trading Limited (智達香港貿易有限公司)	No business operation	22 June 2012

Ms. Fu confirms that the above company was solvent at the time when it was being dissolved by deregistration. Ms. Fu also confirms that there is no fraudulent act or misfeasance on her part leading to deregistration of such company and she is not aware of any actual or potential claim which has been or will be made against her as a result of the deregistration of such companies.

Independent non-executive Directors

Mr. Chan Cheong Tat

Independent non-executive Director

Mr. Chan, aged 68, is an independent non-executive Director. Mr. Chan is responsible for supervising and providing independent judgment to the Board. Mr. Chan was appointed as an independent non-executive Director of the Company on 26 September 2018.

Mr. Chan has over 32 years of work experience in the IRD. He was an assistant commissioner and was responsible for tax compliance before he retired in 2005.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Chan has been the sole director of a tax consultancy company, C T Tax Consultants Limited, since August 2006. Further, Mr. Chan has been an independent non-executive director of Guangdong Tannery Limited (Stock Code: 1058) since March 2006, an independent non-executive director of Medicskin Holdings Limited (Stock Code: 8307) since December 2014 and an independent non-executive director of Hyfusin Group Holdings Limited (Stock Code: 8512) since June 2018. He was an independent non-executive director of Noble Jewelry Holdings Limited (currently known as Zhong Fa Zhan Holdings Limited) (Stock Code: 475) from October 2006 to December 2011; Wasion Group Holdings Limited (Stock Code: 3393) from May 2014 to May 2015; and Man Sang International Limited (Stock Code: 938) from January 2015 to December 2016.

Mr. Chan graduated from Central Queensland University of Australia with a master degree in financial management in October 1995 through distance learning. He has also been an associate of The Institute of Chartered Secretaries and Administrators (U.K.) since 1974 and The Hong Kong Institute of Chartered Secretaries since 1994. Mr. Chan has also been a fellow member of the Hong Kong Institute of Certified Public Accountants (formerly known as the Hong Kong Society of Accountants) since March 1986; a fellow member of the Association of Chartered Certified Accountants since December 1983; and a fellow member of the Australian Society of Certified Practising Accountants since June 1990.

Mr. Wong Wing Keung Meyrick

Independent non-executive Director

Mr. Wong, aged 59, is an independent non-executive Director. Mr. Wong is responsible for supervising and providing independent judgment to the Board. Mr. Wong was appointed as an independent non-executive Director of the Company on 26 September 2018.

Mr. Wong started his career as a graduate trainee with China Light & Power Co., Ltd. (“CLP”) in 1980 and was then promoted to an unit engineer in 1983. Mr. Wong left CLP in May 1987 and joined Hopewell Power (China) Co., Ltd. as an assistant shift charge engineer between June 1987 to June 1989. In 1990, Mr. Wong started his practice as a barrister-at-law in Hong Kong.

Mr. Wong completed the High Diploma in Mechanical Engineering and Associateship in Mechanical Engineering in Hong Kong Polytechnic University in November 1979 and November 1980, respectively. Mr. Wong passed the Council of Engineering Institutions Examinations in Mechanical Engineering and Electrical Engineering in 1980 and 1982, respectively. Mr. Wong obtained his Bachelor of Laws from The University of London as an external student in August 1987. Mr. Wong was called to the degree of utter barrister of the Honourable Society of Gray’s Inn in April 1989. Mr. Wong also obtained Master of Laws in international economic law in The Chinese University of Hong Kong in December 2009 and Postgraduate Diploma in Corporate Governance and Directorship jointly issued by the School of Business, Hong Kong Baptist University and The Hong Kong Institute of Directors in June 2011. Mr. Wong obtained a degree in Master of Science in

DIRECTORS AND SENIOR MANAGEMENT

Corporate Governance and Directorship (Distinction) issued by the School of Business, Hong Kong Baptist University in 2011. Mr. Wong is also a Chartered Engineer, a member of Institute of Energy, Institution of Mechanical Engineers and Institution of Engineering and Technology.

Mr. Wong has been an independent non-executive director of Time Watch Investments Limited (Stock Code: 2033) since January 2013.

Mr. Chan Chi Ming Tony

Independent non-executive Director

Mr. Tony Chan, aged 50, is an independent non-executive Director. Mr. Tony Chan is responsible for supervising and providing independent judgment to the Board. Mr. Tony Chan was appointed as an independent non-executive director of the Company on 26 September 2018.

Mr. Tony Chan possesses over 20 years of experience in the field of business advisory, accounting and auditing. Mr. Tony Chan served as a tax specialist in Coopers & Lybrand from July 1994 to November 1994. Mr. Tony Chan worked as a senior accountant from November 1994 to December 1996 and a manager from January 1997 to June 2000, respectively, in Ernst & Young. Mr. Tony Chan then worked as a client manager in Deloitte Touche Tohmatsu from July 2000 to September 2001; worked as an audit manager in Green Penklis & Lawson from December 2001 to November 2002; worked as a senior manager in Ernst & Young from June 2004 to August 2007; then served as the company secretary of Good Resources Holdings Limited (Stock Code: 109) from September 2007 to May 2017.

Mr. Tony Chan obtained a bachelor's degree in Commerce (major in Accounting) from the Australian National University in April 1990. Mr. Tony Chan has been a member of the Hong Kong Institute of Certified Public Accountants since February 2012 and a member of the CPA Australia (formerly known as Australian Society of Certified Practising Accountants) since November 1993.

Currently, Mr. Tony Chan is an independent non-executive director of Theme International Holdings Limited (Stock Code: 990) from May 2015 till present. Mr. Tony Chan has also been as a non-executive director of Hua Xia Healthcare Holdings Limited (Stock Code: 8143) from November 2016 to July 2018 and currently as an executive director from July 2018 till present. Mr. Tony Chan also served as an executive director of Wan Kei Group Holdings Limited (Stock Code: 1718) from November 2016 to July 2018.

Save as disclosed in this section above, each of the Directors has not been a director of any public company, the securities of which are listed on any securities market in Hong Kong or overseas in the three years immediately preceding the date of this prospectus.

Save as disclosed in this prospectus, to the best of the Directors' knowledge having made all reasonable enquiries, there was no other matter with respect to the appointment of the Directors that needs to be brought to the attention of the Shareholders and there was no information relating to the Directors that is required to be disclosed pursuant to Rule 17.50(2) of the GEM Listing Rules as at the Latest Practicable Date.

DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

The Group's senior management are responsible for the day-to-day management of the Company's business.

Ms. Chan So Kuen

Group account manager

Ms. Chan, aged 43, is the group account manager. Ms. Chan is responsible for overseeing the finance and accounts of the Group. Ms. Chan joined the Group in August 2016 as the accounting manager of CFH Limited.

Ms. Chan possesses over 21 years of experience in the accounting industry. Ms. Chan commenced her career in Li, Tang, Chen & Co. in August 1996 until October 1998 with her last position as a semi-senior audit clerk. Ms. Chan then worked as an assistant accountant in Joseph Wong & Company (Hong Kong) Limited from October 1998 to August 2000; and then as an accountant in Millennium City Club Limited from August 2000 to July 2002. Ms. Chan then worked as an accountant in Pacific Long Distance Telephone Corp. Ltd. from July 2002 to September 2002; and then, she worked at Emperor Watch & Jewellery (HK) Co., Ltd. as an accounting supervisor from November 2002 to September 2007, and then as an accounting manager from January 2008 to August 2016.

Ms. Chan obtained a bachelor's degree in commerce majoring in accounting from Curtin University of Technology (Australia) in February 2000 through distance learning. Ms. Chan is an associate member and a fellow member of the Association of International Accountants since September 2008 and March 2017, respectively.

Mr. Yung Kam Keung

Head of wholesales and retail department

Mr. Yung, aged 50, is the head of the Group's wholesales and retail department. Mr. Yung is responsible for overseeing the wholesaling and retailing functions of the Group. Mr. Yung joined the Group on 29 November 2012 as the sales manager of CFJ Limited and WR Limited.

Mr. Yung possesses over 20 years of experience in the jewellery industry.

Mr. Yung completed his secondary school education in 1987.

Each of the Group's senior management has not been a director of any public company, the securities of which are listed on any securities market in Hong Kong or overseas in the three years immediately preceding the date of this prospectus.

DIRECTORS AND SENIOR MANAGEMENT

Save as disclosed above, there is no other information relating to the relationship of any of the Directors or members of senior management with other Directors or members of senior management that should be disclosed pursuant to Rule 17.50(2) or paragraph 41(1) of Appendix 1A of the GEM Listing Rules. None of the Directors or members of the senior management is interested in any business which competes or is likely to compete with the business of the Company.

COMPANY SECRETARY

Ms. So was appointed on 26 September 2018 as company secretary of the Company. She is the vice president of SWCS Corporate Services Group (Hong Kong) Limited (formerly known as SW Corporate Services Group Limited), a company providing company secretarial service in Hong Kong.

Ms. So has over 20 years of experience in the corporate secretarial field. During the period, Ms. So was employed in the company secretarial role of several companies listed on the Stock Exchange and accounting firms. She joined SWCS Corporate Services Group (Hong Kong) Limited as the assistant vice president in April 2018 and has been serving as the vice president from June 2018. She is also the company secretary of Huifu Limited (Stock Code: 1806) and one of the joint company secretaries of Qilu Expressway Company Limited (Stock Code: 1576).

Ms. So obtained a master degree in business administration from the Faculty of the Social Sciences in the University of Leicester (located in the United Kingdom) in July 1999, and obtained a master degree in law from the City University of Hong Kong (Hong Kong) in November 2004. Ms. So is an associate member of The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators since 1997.

Ms. So is not and has not been appointed as a director/supervisor of any other listed company in the past three years.

COMPLIANCE OFFICER

Ms. Cheung was appointed as the compliance officer of the Company on 11 April 2018. For further details, please refer to the sub-section headed “Directors and senior management — Board of Directors — Executive Directors — Ms. Cheung Lai Yuk” in this prospectus.

BOARD COMMITTEES

The Board delegates certain responsibilities to various committees. In accordance with the Articles of Association and the GEM Listing Rules, the Company has established its audit committee, remuneration committee and nomination committee.

Audit committee

The Company established an audit committee on 26 September 2018 with written terms of reference in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules and paragraphs C3.3 and C3.7 of the Code as set forth in Appendix 15 to the GEM Listing Rules. The primary responsibilities

DIRECTORS AND SENIOR MANAGEMENT

of the audit committee are to supervise the Group's internal control, financial information disclosure and financial reporting matters, which include but are not limited to:

- supervising the disclosure of the Group's accounting information and other major issues, to review critical accounting policies and their implementation;
- proposing the appointment, re-appointment or removal of the Group's external auditors; reviewing and monitoring their independence and objectivity and the effectiveness of the audit process in accordance with applicable standards;
- reviewing the Group's financial statements and material advice in respect of financial reporting;
- overseeing the audit process and internal control procedures and risk management system of the Company; and
- enhancing the communication between the Group's internal auditors and external auditors.

At present, the audit committee of the Company consists of Mr. Tony Chan, Mr. Chan, and Mr. Wong. The chairman of the audit committee is Mr. Tony Chan, who holds the appropriate professional qualifications as required under Rules 5.05(2) and 5.28 of the GEM Listing Rules.

Remuneration committee

The Company established a remuneration committee on 26 September 2018 with written terms of reference in compliance with paragraph B1.2 of the Code as set forth in Appendix 15 to the GEM Listing Rules. The responsibilities of the Company's Remuneration Committee include, but are not limited to:

- making recommendations to the Board on the overall policy and structure for remuneration of all the Directors and senior management and the establishment of a formal and transparent procedure for developing policy on such remuneration;
- determining, with delegated responsibility from the Board, or making recommendations to the Board on the specific remuneration packages of executive Directors and senior management;
- making recommendations to the Board on the remuneration of the Directors;
- reviewing and approving compensation arrangements in relation to dismissal or removal of the Directors for misconduct;
- reviewing and approving performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time; and

DIRECTORS AND SENIOR MANAGEMENT

- ensuring that no Director or any of his or her associates is involved in deciding his or her own remuneration.

The remuneration committee consists of Mr. Tony Chan, Mr. Fu and Mr. Wong. The chairman of the remuneration committee is Mr. Tony Chan.

Nomination committee

The Company established a nomination committee on 26 September 2018 with written terms of reference in compliance with paragraph A5.2 of the Code set forth in Appendix 15 to the GEM Listing Rules. The responsibilities of the Company's nomination committee include, but are not limited to:

- reviewing the selection standard and process, structure, size and composition of the Board and senior management annually and making recommendations on any proposed changes to the Board and senior management to complement the Company's corporate strategy;
- identifying suitable candidates of Directors and senior management, selecting or recommending to the Board on the selection of individuals or providing advice to the Board in respect thereof;
- assessing the independence of the independent non-executive Directors; and
- making recommendations to the Board on the appointment, re-appointment and the succession planning for Directors and senior management.

The nomination committee consists of Mr. Fu, Mr. Chan and Mr. Wong. The chairman of the nomination committee is Mr. Fu.

EMOLUMENT OF DIRECTORS AND MANAGEMENT

The Company offers executive Directors and senior management emolument in the form of salaries, allowances, pension, discretionary bonuses and other welfares. The Company's independent non-executive Directors receive emolument based on their responsibilities (including being members or chairmen of Board committees). Emolument packages are generally structured by reference to market terms and individual merits. Salaries are normally reviewed and discretionary bonuses are paid on annual basis based on the Company's results, individual performance and other relevant factors.

The aggregate amounts of emolument (including salaries, allowances, bonuses, other benefits and contributions to pension schemes) paid to the Directors for the financial years ended 31 March 2017 and 2018 were approximately HK\$1.9 million and HK\$2.1 million, respectively.

The aggregate amounts of emolument (including salaries, allowances, bonuses, other benefits and contributions to pension schemes) paid to the Group's five highest paid individuals for the financial years ended 31 March 2017 and 2018 were approximately HK\$4.6 million and HK\$5.4 million, respectively.

DIRECTORS AND SENIOR MANAGEMENT

It is estimated that an aggregate amount of emolument (including fee, salaries, contributions to pension scheme and other allowances and benefits in kind) equivalent to approximately HK\$3.0 million would have been paid and granted to the Directors by the Group for the year ending 31 March 2019 under arrangements in force on the date of this prospectus.

No emolument was paid to the Directors or the five highest paid individuals as an inducement to join, or upon joining the Group. No compensation was paid to, or receivable by, the Directors or past Directors during the Track Record Period for the loss of office as 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. None of the Directors waived any emoluments during the same period.

Except as disclosed in this prospectus, no Director has been paid in cash or shares or otherwise by any person either to induce him to become, or to qualify him as a Director, or otherwise for service rendered by him in connection with the promotion or formation of the Group.

COMPLIANCE ADVISER

In accordance with Rule 6A.19 of the GEM Listing Rules, the Company appointed Grand Moore Capital Limited as the compliance adviser (the “**Compliance Adviser**”). The Compliance Adviser will provide the Company with guidance and advice as to compliance with the requirements under the GEM Listing Rules. Pursuant to Rule 6A.23 of the GEM Listing Rules, the Compliance Adviser will advise the Company in the following circumstances:

- (i) before the publication of any regulatory announcement, circular, or financial report;
- (ii) where a transaction, which might be a notifiable or connected transaction, is contemplated, including share issues and share repurchases;
- (iii) where the Company propose to use the net proceeds of the Share Offer in a manner different from that detailed in this prospectus or where the business activities, development or results of the Company deviate from any forecast, estimate or other information in this prospectus; and
- (iv) where the Stock Exchange makes an inquiry to the Company in accordance with Rule 17.11 of the GEM Listing Rules.

The term of appointment of the Compliance Adviser shall commence on the Listing Date and is expected to end on the date on which the Company comply with Rule 18.03 of the GEM Listing Rules in respect to its financial results for the second full financial year commencing after the Listing Date.

CORPORATE GOVERNANCE CODE

Except for the deviation from provision A.2.1 of the Corporate Governance Code, the Company has no material deviation from the Corporate Governance Code as set forth in Appendix 15 to the GEM Listing Rules as at the Latest Practicable Date. 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

DIRECTORS AND SENIOR MANAGEMENT

performed by the same individual. Mr. Fu is the Chairman and the CEO of the Company. In view that Mr. Fu has been assuming day-to-day responsibilities in operating and managing the Group, the Board believes that with the support of Mr. Fu's extensive experience and knowledge in the business of the Group, vesting the roles of both Chairman and CEO of the Company in Mr. Fu strengthens the solid and consistent leadership and thereby allows for efficient business planning and decision which is in the best interest to the 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 the Group's operations, and sufficient checks and balances are in place.

The Directors are committed to achieving high standards of corporate governance with a view to safeguarding the interests of the Shareholders as a whole. The Directors are aware that upon Listing, they 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 the Company's interim report and annual report in respect of the relevant period. Save as disclosed above, the Company will comply with the code provisions set out in the Corporate Governance Code after Listing.

SUBSTANTIAL SHAREHOLDERS

So far as the Directors are aware, immediately following completion of the Share Offer and the Capitalisation Issue (without taking into account the Shares which may be issued pursuant to the exercise of the options that have been granted under the Share Option Scheme), the following persons will have an interest or a short position in the Shares or underlying Shares which would be required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly or indirectly, be interested in 10% or more of the issued voting shares of any member of the Group:

Name	Capacity	Number of Shares upon Listing ¹	Percentage of shareholding upon Listing
MGH Limited	Beneficial owner	562,500,000	75%
Mr. Fu ²	Interest in controlled corporation	562,500,000	75%
Ms. Fu ²	Interest in controlled corporation	562,500,000	75%
Ms. Cheung ^{2, 3}	Interest in controlled corporation, interest of spouse	562,500,000	75%

Notes:

1. All interests stated are long positions.
2. Mr. Fu, Ms. Fu and Ms. Cheung are interested in the entire issued share capital of MGH Limited and they are therefore deemed to be interested in the Shares held by MGH Limited by virtue of the SFO.
3. Ms. Cheung is the spouse of Mr. Fu and she is therefore deemed to be interested in the Shares held by Mr. Fu by virtue of the SFO.

For details of the Director's interests in Shares immediately following the completion of the Share Offer, please refer to the sub-section headed "C. Disclosure of interests" in Appendix IV to this prospectus.

Save as disclosed above, the Directors are not aware of any person who will, immediately following the Share Offer and the Capitalisation Issue (taking no account of the Shares which may be taken up under any exercise of the options under the Share Option Scheme), have an interest or short position in the Shares or underlying shares which would be required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly or indirectly, be interested in 10% or more of the issued voting shares of any member of the Group.

SUBSTANTIAL SHAREHOLDERS

CONTROLLING SHAREHOLDERS

See section headed “Relationship with the Controlling Shareholders” in this prospectus for information of the Controlling Shareholders.

Each of the Controlling Shareholders has also given undertakings in respect of the Shares to the Company and the Stock Exchange as required by Rules 13.16A(1) and 13.19 of the GEM Listing Rules, details of which are set out in the section headed “Underwriting — Undertakings pursuant to the “Public Offer Underwriting Agreements” in this prospectus.

SHARE CAPITAL

Authorised share capital:

		<i>HK\$</i>
<u>1,500,000,000</u>	Shares	<u>15,000,000</u>

Issued and to be issued, fully paid or credited as fully paid upon completion of the Share Offer:

1	Shares in issue as at the date of this prospectus	0.01
562,499,999	Shares to be issued under the Capitalisation Issue	5,624,999.99
<u>187,500,000</u>	Shares to be issued under the Share Offer	<u>1,875,000</u>
<u>750,000,000</u>	Shares	<u>7,500,000</u>

Assumptions

The above table assumes that the Share Offer and the Capitalisation Issue have become unconditional but takes no account of any Shares which may fall to be issued pursuant to the exercise of options which may be granted under the Share Option Scheme or of any Shares which may be allotted and issued or repurchased by the Company pursuant to the general mandates as described below.

Minimum Public Float

Pursuant to Rule 11.23(7) of the GEM Listing Rules, at the time of the Listing and at all times thereafter, the Company must maintain the “minimum prescribed percentage” of 25% of the total number of issued Shares of the Company in the hands of the public (as defined in the GEM Listing Rules).

Ranking

The Offer Shares will rank *pari passu* in all respects with all Shares in issue or to be issued as set out in the above table, and will qualify in full for all dividends and other distributions hereafter declared, made or paid on the Shares after the date of this prospectus other than participation in the Capitalisation Issue.

SHARE OPTION SCHEME

The Company has conditionally adopted the Share Option Scheme, the principal terms of which are summarised in the sub-section headed “F. Other information — 1. Share Option Scheme” in Appendix IV to this prospectus.

The Group did not have any outstanding share options, warrants, convertible instruments, or similar rights convertible into the Shares as at the Latest Practicable Date.

SHARE CAPITAL

GENERAL MANDATE TO ISSUE SHARES

Conditional on the conditions as stated in the section headed “Structure and conditions of the Share Offer” in this prospectus, the Directors have been granted a general unconditional mandate to allot, issue and deal with Shares with a total number of not more than the aggregate of:

- (i) 20% of the total number of Shares in issue immediately following completion of the Share Offer and the Capitalisation Issue; and
- (ii) the total number of the Shares repurchased by the Company (if any) pursuant to a separate mandate to repurchase Shares and described more fully below.

This general mandate is in addition to the powers of the Directors to allot, issue or deal with Shares under an issue by way of rights, an issue of Shares pursuant to the exercise of subscription rights attaching to any warrants of the Company or pursuant to any options granted under the Share Option Scheme, or an issue of Shares in respect of any scrip dividend or similar arrangement for the allotment and issue of Shares in lieu of the whole or part of the dividend on Shares.

This general mandate to issue shares will expire when one of the following expires first:

- (i) at the conclusion of the Company’s next annual general meeting; or
- (ii) the expiration of the period within which the Company is required by the Articles or any applicable laws of the Cayman Islands to hold its next annual general meeting; or
- (iii) when varied or revoked by an ordinary resolution of the Shareholders in general meeting.

For further details of this general mandate, please see the sub-section headed “A. Further information about the Group — 5. Written resolutions of the sole Shareholder passed on 26 September 2018” in Appendix IV to this prospectus.

GENERAL MANDATE TO REPURCHASE SHARES

Conditional on the conditions as stated in the section headed “Structure and conditions of the Share Offer” in this prospectus, the Directors have been granted a general unconditional mandate to exercise all the powers of the Company to repurchase Shares with an aggregate number of not more than 10% of the total number of Shares issued and to be issued following the completion of the Share Offer and the Capitalisation Issue.

This general mandate only relates to repurchases made on the Stock Exchange or on any other stock exchange on which the Shares are listed (and which is recognised by the SFC and the Stock Exchange for this purpose), and which are in accordance with the GEM Listing Rules and all applicable laws. A summary of the relevant requirements in the GEM Listing Rules is set out in the section headed “A. Further information about the Group — 6. Repurchase of the Shares” in Appendix IV to this prospectus.

SHARE CAPITAL

This general mandate to repurchase shares will expire when one of the following expire

- (i) at the conclusion of the Company's next annual general meeting; or
- (ii) the expiration of the period within which the Company is required by the Articles or any applicable laws of the Cayman Islands to hold its next annual general meeting; or
- (iii) when varied or revoked by an ordinary resolution of the Shareholders in general meeting.

CIRCUMSTANCES UNDER WHICH GENERAL MEETING AND CLASS MEETING ARE REQUIRED

As a matter of the Companies Law, an exempted company is not required by law to hold any general meetings or class meetings. The holding of general meeting or class meeting is prescribed for under the articles of association of a company. Accordingly, the Company will hold general meetings as prescribed for under the Articles, a summary of which is set out in sub-section headed "2. Articles of Association" in Appendix III to this prospectus.

FINANCIAL INFORMATION

You should read the following discussion and analysis of the Group's financial condition and results of operations together with its combined financial statements as at the closing date of and for the years ended 31 March 2017 and 2018 and the accompanying notes included in the Accountants' Report set out in Appendix I to this prospectus. The Accountants' Report has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"). Potential investors should read the whole of the Accountants' Report set out in Appendix I to this prospectus and not rely merely on the information contained in this section. The following discussion and analysis contains forward-looking statements that involve risks and uncertainties (including those discussed below or elsewhere in this prospectus). For additional information regarding these risks and uncertainties, please refer to the section headed "Risk factors" in this prospectus.

OVERVIEW

The Group is a vertically integrated jeweller based in Hong Kong. It is engaged in the retail of its own products through its network of eight branded retail stores strategically located in Kowloon and the New Territories. The Group also engages in the wholesale of its jewellery products to other customers including jewellery retailers, and trade recycled gold products from the general public for sale to Customer A (also known as Supplier C), a general trader who purchases recycled gold products from the Group. The Group manufactures its jewellery products at its production facility in Shenzhen, Guangdong Province, the PRC.

The Group's principal products are jewellery products, including gem-set jewellery products, and pure gold products which are designed, produced and priced reasonably to customers.

For the years ended 31 March 2017 and 2018, the Group's revenue amounted to approximately HK\$203.5 million and HK\$173.0 million respectively, and the Group's profit for the year attributable to owners of the Group amounted to approximately HK\$3.9 million and HK\$4.8 million respectively.

For further details of the Group's business and operation, please refer to the section headed "Business — Overview" in this prospectus.

BASIS OF PRESENTATION

The Company was incorporated as a limited liability company in the Cayman Islands on 11 January 2018. In preparation of the Listing, the Group underwent the Reorganisation, as detailed in the section headed "History, development and Reorganisation — Reorganisation" in this prospectus. As a result of the Reorganisation, the Company became a holding company of the subsidiaries comprising the Group. The financial information includes the combined statements of profit and loss and other comprehensive income, combined statements of changes in equity, combined statements of cash flows and combined statements of financial position of the companies now comprising the Group.

The financial information has been prepared as if the current group structure had been in existence throughout the Track Record Period, or since the respective dates of incorporation of the companies comprising the Group, whichever is a shorter period. The combined statements of financial position of the Group as at 31 March 2017 and 31 March 2018 have been prepared to present the assets

FINANCIAL INFORMATION

and liabilities of the Group as at the respective dates as if the current group structure had been in existence at those dates. Transactions, balances and unrealised gain or losses on transactions between companies within the Group are eliminated on combination. The Directors have adopted the HKFRSs in the preparation of the combined financial information of the Company and its subsidiaries now comprising the Group for the Track Record Period.

KEY FACTORS AFFECTING THE RESULTS OF OPERATIONS AND FINANCIAL CONDITION OF THE GROUP

The results of operations and financial condition of the Group have been and are expected to continue to be affected by a number of factors, many of which may be beyond control of the Group, including those factors set out in the section headed “Risk factors” in this prospectus and those set out below.

Fluctuation of costs

Prices of raw materials and commodity price risk

The Group’s cost of goods sold mainly comprised the cost of inventories, including diamonds, gemstones and gold. For the years ended 31 March 2017 and 2018, the Group’s cost of inventories sold amounted to approximately HK\$144.0 million and HK\$111.9 million, respectively, representing approximately 70.7% and 64.7%, respectively of the Group’s total revenue for the corresponding periods. According to the Frost & Sullivan Report, gold prices amounted to approximately HK\$9,709 per oz in 2016 and are projected to range from HK\$10,000 to HK\$11,000 in 2022. According to the Frost & Sullivan Report, the global polished diamonds price index declined from 155.2 in 2012 to 116.0 in 2017 and is expected to continue to fall to 100 by 2022. Accordingly, the Group is exposed to commodity price risk due to changes in demand and supply conditions globally of its key raw materials, including gold and diamond. Please refer to the section headed “Risk factors — Price fluctuation of jewellery raw materials of the Group’s jewellery products could materially and adversely affect its business” in this prospectus and the paragraph headed “Sensitivity analysis of cost items” in this section.

Rental rates

Currently, selling in retail stores is the Group’s major sales channel. The Group rented premises for all of its eight retail stores, factory and office. For the years ended 31 March 2017 and 2018, the Group’s rental expenses amounted to approximately HK\$10.5 million and HK\$11.3 million, respectively, representing approximately 5.2% and 6.5%, respectively of the Group’s total revenue. The Group’s retail stores are leased premises with tenancy terms ranging from approximately one to three years. Out of these lease agreements, the earliest expiry date will be in 9 October 2018. There is no assurance that each of these leases can be renewed upon expiry or can be renewed at terms and conditions which are favourable to the Group and comparable to the terms of existing lease agreements. There is also no assurance that the Group could secure favourable locations to the Group’s satisfaction for new leases. Failure to renew the existing leases upon expiry or failure to secure leases for alternative locations may hence have an adverse effect to the Group’s performance and future development.

FINANCIAL INFORMATION

Staff costs

The Group's retail segment depends on the hiring and retaining of experienced sales staff to interact with its customers on a daily basis. In addition, The Group has reliance on its experienced management team to manage its business operations. For the years ended 31 March 2017 and 2018, the Group's total staff costs (including directors' emoluments) including wages and salaries, mandatory provident fund contributions, employee benefits expense amounted to approximately HK\$19.0 million and HK\$22.3 million, respectively, representing approximately 9.4% and 12.9%, respectively, of the Group's total revenue for the corresponding years.

As the Group's business operations expand, the Group expects to hire more staff and its staff costs will continue to increase. The Group considers any future changes in minimum wage rate have limited implications for its operations as those mainly apply to low-paid workers and the majority of its staff are paid well beyond the minimum wage rate. Nevertheless, the competition in the labour market for staff of appropriate experience with the retail industry may increase the salary level and correspondingly the Group's costs associated with hiring and retaining staff, which in turn may affect its results of operations.

Sensitivity analysis of cost items

The follow table sets forth a sensitivity analysis for the Group's major cost components, i.e. (i) gold prices; (ii) operating lease charges of rented premises; and (iii) staff costs (including directors' remuneration), illustrating their respective impact on the Group's profit before tax if the above items had been 5.0%, 10.0% and 16.5% higher or lower in the years indicated in relation to gold prices, and 5.0%, 10.0% and 12.1% higher or lower in the years indicated in relation to rental expenses and staff costs, assuming all other variables were held constant. The increase or decrease in percentage of hypothetical fluctuation was based on the historical fluctuation of the gold prices, rental expenses and staff costs during the Track Record Period.

	Year ended 31 March	
	2017	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
If gold price had been 5.0% higher / lower		
Increase / decrease in profit before tax	+/-689	+/-1,258
If gold price had been 10.0% higher / lower		
Increase / decrease in profit before tax	+/-1,371	+/-2,515
If gold price had been 16.5% higher / lower		
Increase / decrease in profit before tax	+/-2,259	+/-4,148
If rental expenses had been 5.0% higher / lower		
Decrease / increase in profit before tax	-/+539	-/+626
If rental expenses had been 10.0% higher / lower		
Decrease / increase in profit before tax	-/+1,077	-/+1,253

FINANCIAL INFORMATION

	Year ended 31 March	
	2017	2018
If rental expenses had been 12.1% higher / lower		
Decrease / increase in profit before tax	-/+1,303	-/+1,516
If staff cost had been 5.0% higher / lower		
Decrease / increase in profit before tax	-/+824	-/+1,114
If staff cost had been 10.0% higher / lower		
Decrease / increase in profit before tax	-/+1,648	-/+2,229
If staff cost had been 12.1% higher / lower		
Decrease / increase in profit before tax	-/+1,994	-/+2,697

Fluctuations of the cost items as abovementioned and the ability of the Group to pass on any increase in cost to the Group's customers will affect the Group's gross profit margin and net profit margin.

Market recognition of the Group's brand name and economic environment in Hong Kong

The growth of the historical sales was mainly driven by the increasing market recognition of the Group's brand name in Hong Kong as well as a number of factors, including the growth of GDP and disposable income level of households as well as consumer preferences. The Directors expect the future sales growth to receive continuous benefits from the expansion of public awareness of its brand name in Hong Kong. For the Group's jewellery products, the Group faces competition from larger retailers of fine jewellery and local distributors.

Coverage of the Group's sales and distribution network

The Group's revenue and profit growth will depend to a significant extent on the ability to successfully expand and manage the sales and distribution network. The Group may face challenges in finding suitable distribution channels in Hong Kong. The Group will rely continuously on the ability of its retail outlets and sales to other corporate customers to successfully promote its products to end customers.

In the event that any of the major sales channels is found to be unsustainable, which may be due to the deterioration of the business of the Group's wholesale customers and hence out of the Group's control, its sales and results of operations may be adversely affected.

FINANCIAL INFORMATION

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Critical accounting policies and estimates are those accounting policies and estimates that involve significant judgments and uncertainties and potentially yield materially different results under different assumptions and conditions. The combined financial statements have been prepared in accordance with HKFRSs, which requires that the Group adopts accounting policies and makes estimates that it believes are the most appropriate in the circumstances for the purposes of giving a true and fair view of the results of operations and financial condition. Estimates and judgments are based on historical experience, prevailing market conditions and rules and regulations, and are reviewed on a continual basis taking into account of the changing environment and circumstances.

Revenue recognition: Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business and net of discounts and returns. Revenue from the sale of goods including retail sales and wholesale to retailers and jewellery trading is recognised when the goods are delivered and titles have passed.

Inventories: Inventories are stated at the lower of cost and net realisable value. Cost is determined using weighted average for gold jewellery products and specific identification basis for other jewellery products. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Tax: Income tax expense represents the sum of the tax currently payable and deferred tax. The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before taxation as reported in the combined statements of profit or loss and other comprehensive income because it excludes 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 the reporting period.

For more details, see notes 4 and 5 of section E to the Accountants' Report set forth in Appendix I to this prospectus.

RESULTS OF OPERATIONS

The following table presented the selected financial data from the combined income statements for the years ended 31 March 2017 and 2018, which have been extracted from, and should be read in conjunction with the Accountants' Report set forth in Appendix I to this prospectus.

FINANCIAL INFORMATION

Combined statements of profit or loss and other comprehensive income

	Year ended 31 March	
	2017	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	203,464	173,020
Cost of goods sold	<u>(149,642)</u>	<u>(115,590)</u>
Gross profit	53,822	57,430
Other income	77	67
Other gains or losses	(5,690)	(475)
Selling and distribution costs	(25,026)	(28,778)
General and administrative expenses	(12,174)	(10,710)
Listing expenses	—	(8,151)
Finance costs	<u>(1,128)</u>	<u>(1,371)</u>
Profit before taxation	9,881	8,012
Taxation	<u>(6,008)</u>	<u>3,177</u>
Profit for the year	3,873	4,835
Other comprehensive (expense) income for the year		
Item that may be reclassified subsequently to profit or loss:		
Exchange differences arising on translation of a foreign operation	<u>(107)</u>	<u>418</u>
Other comprehensive (expense) income for the year, net of income tax	<u>(107)</u>	<u>418</u>
Total comprehensive income for the year	<u><u>3,766</u></u>	<u><u>5,253</u></u>
Profit (loss) for the year attributable to:		
Owners of the Group	4,439	4,630
Non-controlling interests	<u>(566)</u>	<u>205</u>
	<u><u>3,873</u></u>	<u><u>4,835</u></u>
Total comprehensive income (expense) attributable to:		
Owners of the Group	4,344	5,000
Non-controlling interests	<u>(578)</u>	<u>253</u>
	<u><u>3,766</u></u>	<u><u>5,253</u></u>

FINANCIAL INFORMATION

PRINCIPAL COMPONENTS OF THE GROUP'S COMBINED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Revenue

In light of the downward market trend before the year ended 31 March 2017, the Group's management implemented a series of sales promotions involving discounts of its gem-set jewellery products during the year ended 31 March 2017. For the year ended 31 March 2018, since the market was recovering, less discounts were given to customers. Instead, the Group focused on selling jewellery products of lower unit selling price because these products generate higher profit margins. As a result, the Group's (i) total sales volume of gem-set jewellery products and pure gold products increased from approximately 50,000 units to approximately 55,000 units during the year ended 31 March 2018; (ii) average selling price of gem-set jewellery products and pure gold products decreased from approximately HK\$3,800 during the year ended 31 March 2017, to approximately HK\$2,900 during the year ended 31 March 2018; and (iii) gross profit of gem-set jewellery products and pure gold products increased from approximately HK\$52.6 million during the year ended 31 March 2017 to approximately HK\$56.9 million during the year ended 31 March 2018.

	Year ended 31 March					
	2017			2018		
	Retail	Wholesale	Total	Retail	Wholesale	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Gem-set jewellery products	70,406	64,261	134,667	66,880	40,366	107,246
Pure gold products	<u>51,727</u>	<u>4,646</u>	<u>56,373</u>	<u>46,432</u>	<u>5,469</u>	<u>51,901</u>
Subtotal	<u>122,133</u>	<u>68,907</u>	<u>191,040</u>	<u>113,312</u>	<u>45,835</u>	<u>159,147</u>
Trading of recycled gold products			<u>12,424</u>			<u>13,873</u>
Total			<u><u>203,464</u></u>			<u><u>173,020</u></u>

FINANCIAL INFORMATION

Revenue by products

The Group offers jewellery products under three major categories, namely (i) gem-set jewellery product, which includes diamond, platinum and other gem-set jewellery products; (ii) pure gold products; and (iii) trading of recycled gold products. The following table sets forth the breakdown of the Group's revenue by types of jewellery products sold during the Track Record Period:

	Year ended 31 March							
	2017				2018			
	Revenue		Sales volume	Average selling price	Revenue		Sales volume	Average selling price
	HK\$'000	%	Unit	HK\$	HK\$'000	%	Unit	HK\$
Gem-set jewellery products	134,667	66.2	34,638	3,888	107,246	62.0	37,609	2,858
Pure gold products	56,373	27.7	15,373	3,667	51,901	30.0	17,383	2,986
Subtotal	191,040	93.9	50,011	3,820	159,147	92.0	54,992	2,894
Trading of recycled gold products ^(Note)	12,424	6.1	N/A	N/A	13,873	8.0	N/A	N/A
Total	203,464	100.0	50,011	3,820	173,020	100.0	54,992	2,894

Note: Trading of recycled gold products are measured by weight. Sales volume in units and average selling price in HK\$ are therefore not available.

The following table sets forth the sales volume, average selling price and price range of the Group's recycled gold products by weight during the Track Record Period:

	Year ended 31 March	
	2017	2018
Sales volume by weight (tael)	1,063	1,184
Average selling price (HK\$ per tael)	11,682	11,715

As the selling price of recycled gold products is set according to the market price of gold at the time of the transactions and the actual weight of the recycled gold products, the price range would of recycled gold is represented by average selling price of recycled gold in HK\$ per tael.

For the years ended 31 March 2017 and 2018, the Group's revenue generated from gem-set jewellery products contributed the most significant part of the Group's total revenue, which amounted to approximately HK\$134.7 million and HK\$107.2 million, and representing approximately 66.2% and 62.0% of the Group's total revenue respectively. The Group's revenue generated from pure gold products for the years ended 31 March 2017 and 2018 also contributed significantly and amounted to approximately HK\$56.4 million and HK\$51.9 million, representing approximately 27.7% and 30.0% of the Group's total revenue respectively. The Group's revenue generated from its trading of recycled gold products for the years ended 31 March 2017 and 2018 amounted to approximately HK\$12.4 million and HK\$13.9 million, representing approximately 6.1% and 8.0% of the Group's total revenue respectively.

FINANCIAL INFORMATION

Revenue by business (sales channel)

The operation of the Group comprises jewellery business and trading of recycled gold products. The jewellery business can be further classified according to retail and wholesale channels. The following table sets forth the Group's revenue by business nature during the Track Record Period:

	Year ended 31 March							
	2017				2018			
	Revenue		Sales volume	Average selling price	Revenue		Sales volume	Average selling price
	HK\$'000	%	Unit	HK\$	HK\$'000	%	Unit	HK\$
Retail	122,133	60.0	34,137	3,578	113,312	65.5	34,911	3,246
Wholesale	68,907	33.9	15,874	4,341	45,835	26.5	20,081	2,283
Subtotal	191,040	93.9	50,011	3,820	159,147	92.0	54,992	2,894
Trading of recycled gold products ^(Note)	12,424	6.1	N/A	N/A	13,873	8.0	N/A	N/A
Total	203,464	100.0	50,011	3,820	173,020	100.0	54,992	2,894

Note: Trading of recycled gold products are measured by weight. Sales volume in units and average selling price in HK\$ are therefore not available.

- **Retail:** Revenue from the Group's retail segment represented revenue from the Group's retail customers who purchase products from the Group's retail stores. For the years ended 31 March 2017 and 2018, the Group's revenue generated from its retail operation contributed the most significant part of the Group's total revenue, which amounted to approximately HK\$122.1 million and HK\$113.3 million, and representing approximately 60.0% and 65.5% of the Group's total revenue respectively. During the Track Record Period, the Group has eight branded retail stores strategically located in Kowloon and the New Territories.
- **Wholesale:** Revenue from the Group's wholesale segment represented revenue from the Group's wholesale customers and other customers who purchased product at the Group's head office. The Group's revenue generated from its wholesale business for the years ended 31 March 2017 and 2018 also contributed significantly and amounted to approximately HK\$68.9 million and HK\$45.8 million, representing approximately 33.9% and 26.5% of the Group's total revenue respectively.

FINANCIAL INFORMATION

Reasons for the increase in the Group's wholesale revenue of pure gold products for the nine months ended 31 December 2017 compared with the nine months ended 31 December 2016

The following table sets forth the breakdown of the Group's wholesale revenue of pure gold products for the nine months ended 31 December 2016 and 2017 and for the years ended 31 March 2017 and 2018.

Wholesale revenue of pure gold products	Nine months ended 31 December		Year ended 31 March		B vs A		D vs C		C vs A		
	2016	2017	2017	2018	HK'000	%	HK'000	%	HK'000	%	
	NOTES	HK\$'000 A	HK\$'000 B	HK\$'000 C	HK\$'000 D						
Wholesale Customer A	(1)	115	982	210	1,494	867	753.9%	1,284	611.4%	95	82.6%
Other wholesale customers	(2)	1,310	3,252	4,436	3,975	1,942	148.2%	(461)	-10.4%	3,126	238.6%
Total		<u>1,425</u>	<u>4,234</u>	<u>4,646</u>	<u>5,469</u>	2,809	197.1%	823	17.7%	3,221	226.0%

Notes:

1. Except the year ended 31 March 2017, Wholesale Customer A was the largest wholesale customer of pure gold products during the nine months ended 31 December 2016 and 2017 and the year ended 31 March 2018.
2. Other wholesale customers represent sales of pure gold products which took place at the Group's head office. During the nine months ended 31 December 2016 and 2017 and the years ended 31 March 2017 and 2018, revenue of this segment was contributed by approximately 59, 89, 91 and 116 independent third parties respectively. This means that each of these other wholesale customers of pure gold products represents less than 0.02% of the Group's total revenue during each of the respective period/ financial year.

During the nine months ended 31 December 2017, the Group's wholesale revenue of pure gold products increased by approximately HK\$2.8 million. Such increase was mainly caused by (i) approximately HK\$0.8 million increase in revenue from Wholesale Customer A and (ii) approximately HK\$2.0 million increase in revenue from other wholesale customers due to the increase in the number of wholesale customers of pure gold products from 59 during the nine months ended 31 December 2016 to 89 during the nine months ended 31 December 2017.

During the nine months ended 31 December 2017, the Group's wholesale revenue of pure gold products increased by approximately HK\$2.8 million (B vs A per table above) from approximately HK\$1.4 million to approximately HK\$4.2 million. During the year ended 31 March 2018, the Group's wholesale revenue of pure gold products increased by approximately HK\$0.8 million (D vs C per table above) from approximately HK\$4.6 million to approximately HK\$5.5 million. As such, the Group's increment was down by approximately HK\$2.0 million for the entire the year ended 31 March 2018 as compared to that for the nine months ended 31 December 2017. Such decrease was caused by the HK\$3.1 million increment (C vs A per table above) during the three months ended 31 March 2017 due to the increase in the number of wholesale customers by 31.

FINANCIAL INFORMATION

Pricing basis for the provision of processing services by the Group

Generally, pure gold products which require more processing steps and time (and accordingly more labour cost) will be charged at a higher processing fee, whereas pure gold products which require less processing steps and time will be charged at a lower processing fee. For example, processing fee for pure gold bangles of dragon and phoenix (龍鳳手鐲) ranges from HK\$105 per piece to HK\$1,190 per piece, as there are some pure gold bangles which are simpler in design and thus require less processing steps and time to complete. Meanwhile, some items have more complex designs or cast engaging special electroforming technology and thus incurring more processing steps and time to complete (hence the wide range). On the contrary, necklaces usually require less processing steps and time due to their less complex design and therefore command lower processing fee from HK\$142 per piece to HK\$192 per piece. Despite the above, the amount of processing fee charged for each jewellery product may also differ on a case-by-case basis, depending on (i) the level of customisation (which may increase the steps and time required to process the pure gold products); (ii) the use of the gold casting technology; (iii) market demand; and (iv) the price negotiated between the customer and the Group.

Average processing fee from Wholesale Customer A (calculated by dividing the revenue contribution over the quantity of products processed by the Group) increased from approximately HK\$131.8 per piece in the year ended 31 March 2017 to HK\$239.6 per piece in the year ended 31 March 2018. The reason for the increase in average processing fee was due to the fact that Wholesale Customer A was a new customer in the year ended 31 March 2017 and in the beginning, the Group focused on processing products with less complex designs and applying traditional gold casting technology, which resulted in lower average processing fee per piece of pure gold product. As the level of cooperation grew during the year ended 31 March 2018, Wholesale Customer A entrusted the Group with more complicated designed products applying the electroforming technology, which resulted in an increase in average processing fee per piece of pure gold product.

FINANCIAL INFORMATION

Cost of goods sold

The Group's cost of goods sold were approximately HK\$149.6 million and HK\$115.6 million respectively for the years ended 31 March 2017 and 2018.

The following table sets forth the Group's cost of goods sold by major categories of jewellery products and nature during the Track Record Period:

	Year ended 31 March			
	2017		2018	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Cost of inventories sold				
- Gem-set jewellery products	86,283	57.7	60,286	52.2
- Pure gold products	46,534	31.1	38,256	33.1
- Recycled gold products	<u>11,160</u>	<u>7.5</u>	<u>13,338</u>	<u>11.5</u>
Subtotal	143,977	96.2	111,880	96.8
Factory overheads	1,612	1.1	2,470	2.1
Staff and welfare	1,164	0.8	1,364	1.2
Provision for / (reversal of allowance for) inventories	<u>2,889</u>	<u>1.9</u>	<u>(124)</u>	<u>(0.1)</u>
Total	<u>149,642</u>	<u>100.0</u>	<u>115,590</u>	<u>100.0</u>

Cost of inventories sold is the major component of the Group's cost of goods sold, representing the costs of products charged by the Group's suppliers (determined on the basis of a number of factors including the prevailing market conditions, the volume of orders and the type of products) and accounted for approximately 96.2% and 96.8% of the Group's total cost of goods sold for the years ended 31 March 2017 and 2018 respectively. The reversal of allowance for inventory for the year ended 31 March 2018 of approximately HK\$124,190 represents the net reversal of the previously over-provided inventory balance for the year ended 31 March 2017 as a result of the Group's effort in clearing up its inventories during the year ended 31 March 2018. Factory overheads include costs incurred for the Group's production process while staff and welfare mainly represent overhead salaries and employee benefits of the Group's factory staff.

The Group's total cost of goods sold represents approximately 73.5% and 66.8% of the Group's total revenue for the years ended 31 March 2017 and 2018 respectively.

Gross profit and gross profit margin

Gross profit represents the excess of revenue over the cost of goods sold. The Group's gross profit amounted to approximately HK\$53.8 million and HK\$57.4 million for the years ended 31 March 2017 and 2018 respectively, representing gross profit margin of approximately 26.5% and 33.2% respectively.

FINANCIAL INFORMATION

Gross profit and gross profit margin by products

The follows tables sets forth the Group's gross profit and gross profit margin by product categories during the Track Record Period:

	Year ended 31 March			
	2017		2018	
	<i>HK\$000</i>	<i>Gross profit margin (%)</i>	<i>HK\$000</i>	<i>Gross profit margin (%)</i>
Gem-set jewellery products	44,704	33.2	45,793	42.7
Pure gold products	7,854	13.9	11,102	21.4
Trading of recycled gold	1,264	10.2	535	3.9
Total	53,822	26.5	57,430	33.2

Notes:

- The gross profit calculation by products is for illustrative purpose only, as certain overheads including factory overheads, staff and welfare and provision for inventories have been allocated to gem-set jewellery products and pure gold products.
- The gross profit margin of trading of recycled gold products was significantly lower than that of other products because the selling prices and purchase prices of recycled gold generally follows the market rate of gold at the point of sales and purchase of recycled gold and the gross profit margin represents the bid/ask spread of gold prices. The Group purchases recycled gold products from the general public and then sell to recycled gold product collector dealers, without any processing by the Group.

Gross profit margin of gem-set jewellery products

The table below sets forth a breakdown of the Group's sales volume, average purchase price and average selling price of gem-set jewellery products in terms of diamond size.

Gross profit analysis of gem-set jewellery products	Year ended 31 March 2018							
	Revenue	% of total revenue	Sales volume	Average purchase price	Average selling price	Total gross profit	% of total gross profit	Gross profit margin
	<i>HK\$'000</i>	<i>%</i>	<i>Unit</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$'000</i>	<i>%</i>	<i>%</i>
Products using diamond								
≥ 1 carat	13,798	12.9	386	29,755	35,746	2,312	5.0	16.8%
Products using diamond								
< 1 carat	70,887	66.1	17,800	1,788	3,982	39,069	85.3	55.1%
Other non-diamond gem-set jewellery products	22,561	21.0	19,423	934	1,162	4,412	9.6	19.6%
Total	107,246	100.0	37,609	1,634	2,852	45,793	100.0	42.7%

FINANCIAL INFORMATION

Year ended 31 March 2017

	Revenue	% of total revenue	Sales volume	Average purchase price	Average selling price	Total gross profit	% of total gross profit	Gross profit margin
	<i>HK\$'000</i>	%	<i>Unit</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$'000</i>	%	%
Products using diamond ≥ 1 carat	13,457	10.0	287	39,701	46,889	2,063	4.6	15.3
Products using diamond < 1 carat	86,520	64.2	17,368	2,931	4,982	35,620	79.7	41.2
Other non-diamond gem-set jewellery products	34,690	25.8	16,983	1,629	2,043	7,021	15.7	20.2
Total	134,667	100.0	34,638	2,597	3,888	44,704	100.0	33.2

Year ended 31 March 2016

	Revenue	% of total revenue	Sales volume	Average purchase price	Average selling price	Total gross profit	% of total gross profit	Gross profit margin
	<i>HK\$'000</i>	%	<i>Unit</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$'000</i>	%	%
Products using diamond ≥ 1 carat	13,379	11.9	256	44,684	52,262	1,940	5.0	14.5
Products using diamond < 1 carat	67,337	62.8	15,074	2,520	4,467	29,356	75.0	43.6
Other non-diamond gem-set jewellery products	32,023	29.9	14,372	1,684	2,228	7,824	20.0	24.4
Total	112,739	100.0	29,702	2,479	3,796	39,120	100.0	34.7

Year ended 31 March 2015

	Revenue	% of total revenue	Sales volume	Average purchase price	Average selling price	Total gross profit	% of total gross profit	Gross profit margin
	<i>HK\$'000</i>	%	<i>Unit</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$'000</i>	%	%
Products using diamond ≥ 1 carat	18,057	14.3	292	52,434	61,839	2,746	7.3	15.2
Products using diamond < 1 carat	70,005	55.4	14,963	2,817	4,679	27,850	73.7	39.8
Other non-diamond gem-set jewellery products	38,325	30.3	12,630	2,465	3,034	7,186	19.0	18.8
Total	126,387	100.0	27,885	3,178	4,532	37,782	100.0	29.5

FINANCIAL INFORMATION

During the years ended 31 March 2015, 2016, 2017 and 2018, at least 70% the Group's gem-set gross profit was contributed by diamond products below one carat. In addition, during the years ended 31 March 2015, 2016, 2017 and 2018, the gross profit margin of gem-set products below one carat increased from 39.8% to 55.1%, which resulted in the overall gross profit margin of gem-set products increasing from 29.5% to 42.7%.

99 more units of gem-set products using diamond one carat or above were sold in the year ended 31 March 2018 when compared with the year ended 31 March 2017, while 432 more units of gem-set jewellery products using diamonds less than one carat were sold in the year ended 31 March 2018 when compared with the year ended 31 March 2017.

Given the higher gross profit margin of gem-set jewellery products using diamonds less than one carat, the more these products are sold, the higher the overall gross profit margin.

As gem-set jewellery products using diamonds less than one carat account for more than 55% from the years ended 31 March 2015 to 2018, and diamonds less than one carat are not graded, it is therefore not possible to analyse the Group's average selling price and average purchase price of gem-set jewellery products by quality/grading of diamonds. As for gemstones other than diamonds, they include a wide range of precious stones, the purchase prices and selling prices of some of these gemstones are not strictly correlated to their sizes and qualities. Gemstone also include jadeite the measuring unit of which is not carat. We therefore cannot analyse purchase prices and selling prices of gem-set jewellery products (other than diamond) by size/quality/grading of gemstones.

Increase in the gross profit margin of gem-set jewellery products was mainly caused by the decrease in diamond costs. According to the Frost & Sullivan Report, the unit cost of diamonds below one carat are much lower than the unit cost of diamond above one carat. For example, given similar quality of diamonds, a 0.5 carat of diamond may be only be 1/3 of the price of its one carat counterpart. As the Group used more diamonds below one carat during its production process caused by the Group's focus on producing and selling lower selling price jewellery using smaller sized gem-stones, its cost of goods sold decreased at a faster rate than the revenue during the year ended 31 March 2018.

Gross profit margin of pure gold products

The table below sets forth a breakdown of the Group's sales volume, average purchase price and average selling price of pure gold. As all pure gold products are manufactured from one homogenous cost/quality/grading of gold, i.e. 999.9 gold, gross profit margin analysis is conducted by average purchase price per gold product.

Gross profit analysis of pure gold products	Year ended 31 March 2018							
		% of		Average	Average	Total	% of	Gross
	Revenue	total	Sales	purchase	selling	gross	total	profit
	revenue	volume	price	price	profit	gross	profit	margin
	HK\$'000	%	Unit	HK\$	HK\$	HK\$'000	%	%
Pure gold products	51,901	100.0%	17,383	2,347	2,986	11,102	100.0%	21.4%

FINANCIAL INFORMATION

Year ended 31 March 2017

	Revenue	% of total revenue	Sales volume	Average purchase price	Average selling price	Total gross profit	% of total gross profit	Gross profit margin
	<i>HK\$'000</i>	<i>%</i>	<i>Unit</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$'000</i>	<i>%</i>	<i>%</i>
Pure gold products	56,373	100.0%	15,373	3,156	3,667	7,854	100.0%	13.9%

Year ended 31 March 2016

	Revenue	% of total revenue	Sales volume	Average purchase price	Average selling price	Total gross profit	% of total gross profit	Gross profit margin
	<i>HK\$'000</i>	<i>%</i>	<i>Unit</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$'000</i>	<i>%</i>	<i>%</i>
Pure gold products	37,782	100.0%	15,031	2,222	2,514	4,383	100.0	11.6

Year ended 31 March 2015

	Revenue	% of total revenue	Sales volume	Average purchase price	Average selling price	Total gross profit	% of total gross profit	Gross profit margin
	<i>HK\$'000</i>	<i>%</i>	<i>Unit</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$'000</i>	<i>%</i>	<i>%</i>
Pure gold products	25,898	100.0%	9,107	2,298	2,844	4,972	100.0	19.2

As there is only one cost/quality/grading of gold being used, the gross profit margin of pure gold products is basically the difference between the spot selling price of gold to customers (plus processing fee) and the average purchase price of gold. As the spot selling price of gold to customer and the purchase price of gold by the Group correlate closely to the gold price in the global market and they therefore move in the same direction and roughly by the same magnitude, the gross margin is therefore less volatile than gem-set jewellery products in general.

The decrease in gross profit margin of pure gold products from the year ended 31 March 2015 to the year ended 31 March 2016 was because the global gold price dropped from roughly US\$1,300 per troy ounce in March 2014 to less than US\$1,100 per troy ounce in December 2015, but the gold products sold in the same period usually utilised gold stock purchased earlier when the gold price was higher.

The gross profit margin of pure gold products recovered in the years ended 31 March 2017 and 2018 because the global gold price bounced back since December 2015 to US\$1,260 per troy ounce in December 2017, and the gold products sold in the same period utilised gold stock purchased earlier when the gold price was lower.

Selling price of pure gold products are based on the spot price of gold at the date of the transaction. Purchase price of pure gold products are based on the weighted average of its gold over

FINANCIAL INFORMATION

a period of time (usually around six to eight months based on 169 to 231 inventory turnover days for the years ended 31 March 2017 and 2018, respectively). As such, despite the cost of pure gold products is rather constant (due to its average price over a long period of time) while its selling price and hence its sales volume could be relatively volatile (due to the fluctuation of spot gold price).

Gross profit of recycled gold products

On the other hand, selling prices and purchase price of recycled gold generally follows the market rate of gold at the point of sales and purchase of the products. The gross profit margin of recycled gold represents the bid/ask spread of gold prices. According to the Group's management, bid/ask spread tend to be narrower at higher trading volume. During the year ended 31 March 2018, in light of the increasing gold prices, trading volume increased as a result. Accordingly, the Group's gross profit margin for trading of recycled gold decreased significantly in the year from 10.2% in the year ended 31 March 2017 to 3.9% in the year ended 31 March 2018.

Gross profit and gross profit margin by business (sales channels)

	Year ended 31 March			
	2017		2018	
	<i>HK\$'000</i>	<i>Gross profit margin (%)</i>	<i>HK\$'000</i>	<i>Gross profit margin (%)</i>
Retail	39,575	32.4	47,094	41.6
Wholesale	12,983	18.8	9,801	21.4
Trading of recycled gold products	1,264	10.2	535	3.9
Total	53,822	26.5	57,430	33.2

Note: The gross profit by sales channels is for illustrative purpose only, as certain overheads including factory overheads, staff and welfare and provision for/(reversal of allowance for) inventories have been allocated to retail and wholesale channels only.

In line with the respective increases in gross profit margins by products for gem-set jewellery and pure gold products, both retail and wholesale channels have also had increases in their respective gross profit margins. Given the nature of retail sales (which has additional costs including store rental costs and sales staff expenses), higher gross profit margins for the retail channel (as compared to the wholesale channel) is generally required to cover the additional costs.

FINANCIAL INFORMATION

Other income

During the Track Record Period, other income amounted to approximately HK\$77,000 and HK\$67,000 respectively. Other income mainly comprised income from sundry income, and bank interest income.

Other gains or losses

The following table sets forth the Group's other gains or losses during the Track Record Period:

	Year ended 31 March	
	2017	2018
	HK\$'000	HK\$'000
Additional other payments in respect of tax incident	5,667	—
Net foreign exchange gain	(210)	(283)
Loss on revaluation of gold loans	199	758
Loss on disposal of property, plant and equipment	32	—
Total other losses	<u>5,690</u>	<u>475</u>

During the Track Record Period, the Group recorded other losses of approximately HK\$5.7 million and approximately HK\$ 0.5 million respectively. Additional other payments in respect of tax incident of approximately HK\$5.7 million represented the total penalty and holdover interest for the whole field audit case conducted by IRD as specified in the letters issued by IRD on 27 February 2018. For further details of the tax incident, please refer to the section headed “Business — Tax incident” in this prospectus and the paragraph headed “Principal components of the Group's combined statement of profit or loss and other comprehensive income — Taxation” in this section.

FINANCIAL INFORMATION

Selling and distribution costs

The following table sets forth a breakdown of the selling and distribution costs during the Track Record Period.

	Year ended 31 March	
	2017	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
Staff costs and welfare	11,121	12,765
Rent	10,256	11,434
Advertising and promotional expenses	1,627	2,214
Bank charges	1,120	1,337
Others	902	1,027
Total	<u>25,026</u>	<u>28,778</u>

Note: Others included entertainment, packaging and depreciation expenses.

The selling and distribution costs mainly consists of (i) staff costs and welfare; (ii) rent; (iii) advertising and promotional expenses; and (iv) bank charges. During the Track Record Period the Group recorded selling and distribution costs of approximately HK\$25.0 million and HK\$28.8 million respectively. Staff costs and welfare mainly represent salaries, sales commission and employee benefits of the Group's sales staff. Rent represent the rental expenses for the Group's retail stores. Advertising and promotional expenses was incurred for the Group's printed promotional materials and the Group's participation in certain promotional events.

FINANCIAL INFORMATION

General and administrative expenses

The following table sets forth the Group's general and administrative expenses during the Track Record Period:

	Year ended 31 March	
	2017	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
Staff costs and welfare	6,748	8,160
Operating expenses	1,663	1,991
Office expenses	1,016	938
Legal and professional fee	567	588
Allowance/(reversal of allowance) for doubtful debts	1,591	(1,591)
Others	590	624
Total	<u>12,174</u>	<u>10,710</u>

Note: Others included entertainment, depreciation, bank charges and other miscellaneous expenses.

The Group's general and administrative expenses mainly consist of (i) directors' remuneration and other office staff costs and welfare; (ii) operating expenses; (iii) office expenses; (iv) legal and professional fee; and (v) allowance/(reversal of allowance) for doubtful debts. During the Track Record Period, the Group recorded general and administrative expenses of approximately HK\$12.2 million and HK\$10.7 million respectively. Staff costs and welfare mainly represent salaries of the Group's office administrative staff while operating expenses include rental expenses for the Group's office, general insurance, telecommunications, utilities and travelling expenses. Office expenses mainly included motor expenses, maintenance and repair of the Group's computer system and sanitary expenses.

FINANCIAL INFORMATION

Finance costs

Finance costs comprise interests on bank borrowings. The following table sets forth the Group's finance costs for the Track Record Period:

	Year ended 31 March	
	2017	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on bank borrowings	667	739
Interest on gold loans	460	632
Interest on finance lease	1	—
Total	1,128	1,371

Taxation

The following table sets forth the Group's income tax expenses during the Track Record Period:

	Year ended 31 March	
	2017	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
The taxation charge comprises:		
Hong Kong Profits Tax		
- Current year	3,335	2,297
- Overprovision in prior years	(121)	(34)
- Additional tax provision in respect of tax incident	3,618	—
	6,832	2,263
PRC Enterprise Income Tax (“EIT”)		
- Current year	208	150
Deferred tax (credit) charge	(1,032)	764
Total	6,008	3,177

FINANCIAL INFORMATION

During the Track Record Period, the Group's assessable profits in respect of its operation in Hong Kong were subject to Hong Kong profits tax at the applicable income tax rate of 16.5%. Under the Enterprise Income Tax Law of PRC (the "EIT Law") and the Implementation Regulation of the EIT Law, the Group's subsidiary in the PRC, ZHJ Limited, is subject to the tax rate of 25.0% during the Track Record Period.

The taxation for the year/period can be reconciled to the profit before taxation per the combined statements of profit or loss and other comprehensive income as follows:

	Year ended 31 March	
	2017	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit before taxation	9,881	8,012
Tax charge at the applicable income tax rate at 16.5%	1,630	1,322
Tax effect of expenses not deductible for tax purpose	761	2,096
Tax effect of income not taxable for tax purpose	(7)	(262)
Tax effect of tax losses not recognised	54	18
Effect of different tax rate applicable to a subsidiary operating in the other jurisdiction	73	37
Overprovision in prior years	(121)	(34)
Additional tax provision in respect of tax incident	3,618	—
Taxation charge for the year	6,008	3,177

During the Track Record Period, the effective tax rate was approximately 60.8% and 39.7% respectively. Higher taxation was charged for the year ended 31 March 2017 as a result of additional tax provision in respect of tax incident of approximately HK\$3.6 million. The following sets forth the key events of the tax incident:

- In 2011, a field audit was conducted by the IRD on the trading/wholesale businesses of CFH Limited, CFJ Limited, KJJ Limited, WR Limited and CFJM Limited (the "**Target Companies**"). The IRD officers considered that the Target Companies had generated a fluctuating and lower than the ordinary level of gross profit margin for the years of assessment 2004/05 to 2015/16 (the "**Years of Assessment**").
- From March 2011 to March 2017, the IRD issued additional profits tax assessments to the Target Companies.

FINANCIAL INFORMATION

- In 2017, a compromised settlement was reached with the IRD, with an additional tax payable of approximately HK\$3.6 million and penalty of approximately HK\$5.7 million. The compromised settlement represented the full and final settlement of the whole case for the Years of Assessment.
- On 27 February 2018, the IRD issued letters to the Targeted Companies confirming the additional tax payable and total penalty for the whole field audit case was approximately HK\$3.6 million and HK\$5.7 million, respectively.

As a result, additional tax provision and total penalty was recognised for the year ended 31 March 2017, which is the year that the Directors concluded these liabilities probable. For further details of the tax incident, please also refer to the section headed “Business — Tax incident” in this prospectus.

YEAR-TO-YEAR COMPARISON OF RESULTS OF OPERATION

Year ended 31 March 2018 compared to year ended 31 March 2017

Revenue

The Group’s revenue decreased by approximately HK\$30.4 million, or 15.0%, from approximately HK\$203.5 million for the year ended 31 March 2017 to approximately HK\$173.0 million for the year ended 31 March 2018. The decrease in revenue was mainly caused by the revenue decrease from (i) gem-set jewellery products by approximately HK\$27.4 million; and (ii) pure gold products by approximately HK\$4.5 million. Such aggregate decrease was partially offset by the revenue increase from trading of recycled gold products by approximately HK\$1.4 million.

- **Gem-set jewellery products:** For the year ended 31 March 2018, the Group’s revenue from gem-set jewellery products decreased by approximately HK\$27.4 million, or 20.4%, as compared to that for the year ended 31 March 2017. Such decrease was mainly attributable to the combined effect of (i) a decrease in average selling prices from approximately HK\$3,900 in the year ended 31 March 2017 to approximately HK\$2,900 in the year ended 31 March 2018, and (ii) an increase in sales volume from approximately 35,000 units to 38,000 units, which was in-line with the Group’s shift in focusing selling products at lower unit selling price but with higher gross margins in order to maintain its profitability.

FINANCIAL INFORMATION

- **Pure gold products:** For the year ended 31 March 2018, the Group's revenue from pure gold products decreased by approximately HK\$4.5 million, or 7.9%, as compared to that for the year ended 31 March 2017. The decrease was mainly attributable to a decrease of the Group's retail revenue of pure gold products by approximately HK\$5.3 million or approximately 10.2% for the year ended 31 March 2018 as compared to that for the year ended 31 March 2017. Such decrease in retail revenue was offset by the increase in wholesale revenue by HK\$0.8 million due to the Group's new wholesale customer who mainly required the Group to process its pure gold products. Such customer only commenced business relationship with the Group since December 2016, and contributed to higher sales volumes but lower average selling price of pure gold products.

Cost of goods sold

The Group's cost of goods sold decreased by approximately HK\$34.1 million, or 22.8%, from approximately HK\$149.6 million for the year ended 31 March 2017 to approximately HK\$115.6 million for the year ended 31 March 2018. The decrease in cost of goods sold was mainly caused by the decrease in the cost of gem-set jewellery products and pure gold products which decreased by approximately HK\$26.0 million and HK\$8.3 million, respectively. The decrease in costs of gem-set jewellery products was mainly caused by the decrease in diamond costs. According to the Frost & Sullivan Report, the unit cost of diamonds below one carat are much lower than the unit cost of diamond above one carat. For example, given similar quality of diamonds, a 0.5 carat of diamond may be only be $\frac{1}{3}$ of the price of its one carat counterpart. As the Group used more diamonds below one carat during its production process as the group focused on producing and selling lower selling price jewellery using smaller sized gem-stones, its cost of goods sold decreased at a faster rate than the revenue during the year ended 31 March 2018. The weighted average unit cost of gold for the six to eight months period before the peak seasons was relatively stable in the year ended 31 March 2018 as compared to that in the year ended 31 March 2017.

Gross profit and gross profit margin

The Group's gross profit increased by approximately HK\$3.6 million, or 6.7%, from approximately HK\$53.8 million for the year ended 31 March 2017 to approximately HK\$57.4 million for the year ended 31 March 2018. The Group's gross profit margin increased from approximately 26.5% for the year ended 31 March 2017 to approximately 33.2% for the year ended 31 March 2018 as the gross profit margins of both gem-set jewellery products and pure gold products increased during the same period. The Group's increase in gross profit and gross profit margin was mainly caused by (i) the Group shifted its focus of selling products with lower selling price, which used smaller sized gemstones because these products produce higher profit margins (as they have lower unit costs as discussed above); and (ii) less discounts were offered to the Group's customers during the year ended 31 March 2018 as compared to that during the year ended 31 March 2017.

FINANCIAL INFORMATION

- **Gem-set jewellery products:** The gross profit margin of gem-set jewellery products increased from approximately 33.2% for the year ended 31 March 2017 to approximately 42.7% for the year ended 31 March 2018. Such increase was mainly attributable to the decrease in the cost of gem-set jewellery products which was caused by the use of diamonds with lower unit costs as described in cost of goods sold above.
- **Pure gold products:** The Group's gross profit margin of pure gold products increased by approximately 7.5 percentage points, from approximately 13.9% for the year ended 31 March 2017 to approximately 21.4% for the year ended 31 March 2018. The increase in the Group's gross profit margin was mainly due to the overall trend in gold price movements during the year ended 31 March 2018 compared with the same period in 2017, as the Group's selling price of gold is referenced to the market price of gold at the time of transaction. According to the Frost & Sullivan Report, during the year ended 31 March 2018, average price of gold was up by approximately 7.2%, while its average cost remained stable as compared to the same period in 2017.

All of the above factors contributed to an overall increase in gross profit during the year ended 31 March 2018.

Other income

The Group's other income remained stable at approximately HK\$77,000 for the year ended 31 March 2017 and approximately HK\$67,000 for the year ended 31 March 2018.

Other gains or losses

During the Track Record Period, the Group recorded other losses of approximately HK\$5.7 million and approximately HK\$0.5 million respectively. Such decrease in other losses was mainly attributable to the absence of provision of approximately HK\$5.7 million made in respect of penalty related to the tax incident for the year ended 31 March 2017 only; For further details of the tax incident, please refer to the section headed "Business — Tax incident" in this prospectus and the paragraph headed "Principal components of the Group's combined statement of profit or loss and other comprehensive income — Taxation" in this section.

Selling and distribution costs

The Group's selling and distribution costs increased from approximately HK\$25.0 million for the year ended 31 March 2017 to approximately HK\$28.8 million for the year ended 31 March 2018. Such increase was mainly attributable to (i) the increase in rental expenses by approximately HK\$1.2 million, mainly as a result of the increase in rent of a new retail store in Tuen Mun since March 2017; and (ii) the increase in staff costs and welfare by approximately HK\$1.6 million as a result of employing more sales staff due to the new retail store in Tuen Mun.

FINANCIAL INFORMATION

General and administrative expenses

The Group's general and administrative expenses decreased by approximately HK\$1.5 million in the year ended 31 March 2018 due to a reversal of a provision for accounts receivable of approximately HK\$1.6 million.

Finance costs

The Group's finance costs increased from approximately HK\$1.1 million for the year ended 31 March 2017 and approximately HK\$1.4 million for the year ended 31 March 2018, mainly due to the increase in bank loans from HK\$29.4 million in the year ended 31 March 2017 to HK\$36.1 million in the year ended 31 March 2018.

Taxation

Taxation decreased from approximately HK\$6.0 million for the year ended 31 March 2017 to approximately HK\$3.2 million for the year ended 31 March 2018. Such decrease was mainly attributable to the absence of the one-off tax provision (approximately HK\$3.6 million) in respect of the tax incident which was recorded during the year ended 31 March 2017 only. For further details of the tax incident, please refer to the section headed "Business — Tax incident" in this prospectus and the paragraph headed "Principal components of the Group's combined statement of profit or loss and other comprehensive income — Taxation" in this section.

Profit for the year and net profit margin

As a result of the effects of the above factors, the Group's profit for the period increased from approximately HK\$3.9 million for the year ended 31 March 2017 to approximately HK\$4.8 million for the year ended 31 March 2018. For the years ended 31 March 2017 and 2018, the Group's net profit margin was approximately 1.9% and 2.8% respectively.

Sustainability of business in light of declining financial performance of the Group's revenue for the year ended 31 March 2018

The Group's total revenue decreased by approximately HK\$30.4 million, or 15.0%, from approximately HK\$203.5 million for the year ended 31 March 2017 to approximately HK\$173.0 million for the year ended 31 March 2018. As abovementioned, the decrease was mainly caused by the sales decrease from (i) gem-set jewellery products by approximately HK\$27.4 million; and (ii) pure gold products by approximately HK\$4.5 million.

FINANCIAL INFORMATION

Despite the Group's slightly declining financial performance of revenue for the year ended 31 March 2018 as compared to that for the year ended 31 March 2017, the Directors consider that the Group's sustainability of business is not expected to be affected negatively in the long run for the following reasons:

- (i) The Group's gross profit increased by approximately HK\$3.6 million, or 6.7%, from approximately HK\$53.8 million for the year ended 31 March 2017 to approximately HK\$57.4 million for the year ended 31 March 2018. Such increase was mainly attributable to the increase in gross profit from the retail sales as a result of the increase in gross profit margin. As a result of the effects of the above factors, the Group's profit for the year also recorded an increase, from approximately HK\$3.9 million for the year ended 31 March 2017 to approximately HK\$4.8 million for the year ended 31 March 2018. The abovementioned demonstrated that in the event of setbacks, the Group is able change its product mix to focus on products with more relatively high profit margin to improve the Group's profitability.
- (ii) According to the Frost & Sullivan Report, the total trading value of jewellery retail and wholesale market in Hong Kong is expected to grow from approximately HK\$69.8 million for the year ended 31 March 2018 to approximately HK\$85.7 million for the year ending 31 March 2022, which represent a CAGR of approximately 5.3%. Such increase is anticipated to be caused by the favourable overall retail market in Hong Kong in the coming years.
- (iii) The Directors believe that the Group will be able to capture the expected market opportunities as mentioned above due to (a) the Group's well positioning in the small and medium local jewellery retailers and wholesalers market; and (b) the Group's competitive strengths, details of which are further disclosed under the section headed "Business — Competitive strengths" in this prospectus.

LIQUIDITY AND CAPITAL RESOURCES

During the Track Record Period, the Group's principal sources of fund have been the cash generated from the Group's business operations and bank borrowings. The Group's primary liquidity requirements are to satisfy the Group's working capital needs such as purchasing of inventories, payment of rental expenses and payment of staff costs. Going forward, the Group expects these sources to continue to be the Group's principal sources of liquidity and the Group may use a portion of the net proceeds from the Share Offer to finance a portion of its liquidity requirements, details of which please refer to section headed "Future plans and use of proceeds" in this prospectus.

FINANCIAL INFORMATION

The following table sets out a summary of the combined statements of cash flows for the years ended 31 March 2017 and 2018:

	Year ended 31 March	
	2017	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
Operating cash flows before movements in working capital	16,209	9,072
Movements in working capital	(5,892)	13,140
Cash generated from operations	10,317	22,212
Hong Kong Profits Tax paid	(1,804)	(8,551)
PRC Enterprise Income Tax paid	(119)	(233)
Net cash generated from operating activities	8,394	13,428
Net cash used in investing activities	(967)	(240)
Net cash generated from (used in) financing activities	4,954	(8,182)
Net increase in cash and cash equivalents	12,381	5,006
Cash and cash equivalents at beginning of the year	7,082	19,397
Effect of foreign exchange rate changes, net	<u>(66)</u>	<u>60</u>
Cash and cash equivalents at end of the year	<u>19,397</u>	<u>24,463</u>

Cash flows generated from operating activities

The Group's cash flows from operating activities was primarily generated from the receipt of payments from the sales of jewellery products to the Group's retail and wholesale customers. Cash used in operating activities is principally for the payment for purchases of inventories and operating expenses such as staff costs and rental expense.

For the year ended 31 March 2018, the Group had net cash generated from operating activities of approximately HK\$13.4 million, primarily as a result of profit before taxation of approximately HK\$8.0 million, adjusted for (i) reversal of allowance for doubtful debts of approximately HK\$1.6 million; (ii) a net reversal of allowance of inventories of HK\$124,000; (iii) depreciation on property, plant and equipment of approximately HK\$650,000; (iv) loss on revaluation of gold loans of approximately HK\$758,000; (v) interest expenses of approximately HK\$1.4 million; (vi) decrease in trade receivables, prepayments and deposits of approximately HK\$14.8 million; (vii) decrease in trade and other payables of approximately HK\$1.9 million; (viii) cash outflows from Hong Kong Profits paid and PRC Enterprise Income Tax paid of approximately HK\$8.6 million and HK\$233,000 respectively.

FINANCIAL INFORMATION

For the year ended 31 March 2017, the Group had net cash generated from operating activities of approximately HK\$8.4 million, primarily as a result of profit before taxation of approximately HK\$9.9 million, adjusted for (i) allowance for doubtful debts of approximately HK\$1.6 million; (ii) allowance for inventories of approximately HK\$2.9 million; (iii) depreciation on property, plant and equipment of approximately HK\$490,000; (iv) loss on revaluation of gold loans of approximately HK\$199,000; (v) interest expenses of approximately HK\$1.1 million; (vi) increase in inventories of approximately HK\$7.8 million; (vii) increase in trade receivables, prepayments and deposits of approximately HK\$6.0 million; (viii) increase in trade and other payables of approximately HK\$7.9 million; (viii) cash outflows from Hong Kong Profits Tax paid and PRC Enterprise Income Tax paid of approximately HK\$1.8 million and HK\$119,000 respectively.

Cash flows (used) from in investing activities

The Group's cash flows used in investing activities primarily consist of (i) purchase of property, plant and equipment; (ii) advance to related companies; and (iii) repayment from related companies.

For the year ended 31 March 2018, the Group's net cash used in investing activities amounted approximately HK\$240,000, which was mainly attributable to (i) cash outflows for purchase of property, plant and equipment of approximately HK\$666,000; and (ii) cash inflows for repayment from related companies of approximately HK\$422,000.

For the year ended 31 March 2017, the Group's net cash used in investing activities amounted approximately HK\$967,000, which was mainly attributable to (i) cash outflows for purchase of property, plant and equipment of approximately HK\$1.0 million; (ii) cash outflows for advance to related companies of approximately HK\$838,000; and (iii) cash inflows for repayment from related companies of approximately HK\$912,000.

Cash flow generated from (used in) financing activities

The Group's cash flows generated from financing activities primarily consists of (i) repayments to directors; (ii) repayments of bank borrowings; (iii) repayment to a related company; (iv) interest paid; and (v) dividend paid.

For the year ended 31 March 2018, the Group's net cash used in financing activities amounted approximately HK\$8.2 million, which was mainly attributable to (i) cash inflows for proceeds from bank borrowings of approximately HK\$10.0 million; (ii) cash outflows for repayments to directors of approximately HK\$3.5 million; (iii) cash outflows for repayments of bank borrowings of approximately HK\$3.3 million; (iv) cash outflows for repayment to a related company of approximately HK\$1.4 million; (v) cash outflows for interests paid of approximately HK\$1.4 million; (vi) cash outflows for issue costs paid of approximately HK\$1.6 million; and (vii) cash outflows for dividend paid of approximately HK\$7.0 million.

For the year ended 31 March 2017, the Group's net cash generated from financing activities amounted approximately HK\$5.0 million, which was mainly attributable to (i) cash inflows for proceeds from bank borrowings of approximately HK\$18.4 million; (ii) cash outflows for repayments

FINANCIAL INFORMATION

to directors of approximately HK\$7.0 million; (iii) cash outflows for repayments of bank borrowings of approximately HK\$3.5 million; (iv) cash outflows for repayment to a related company of approximately HK\$1.9 million; and (v) cash outflows for interests paid of approximately HK\$1.1 million.

NET CURRENT ASSETS

	At 31 March		At 31 July
	2017	2018	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i> <i>(unaudited)</i>
Current assets			
Inventories	73,222	73,105	79,368
Trade receivable, prepayments and deposits	23,027	12,582	14,766
Amounts due from related companies	23,637	23,215	19,975
Taxation recoverable	74	587	1,109
Bank balances and cash	19,397	24,526	19,487
	<u>139,357</u>	<u>134,015</u>	<u>134,705</u>
Current liabilities			
Trade and other payables	25,001	23,845	24,094
Amounts due to directors	3,503	—	—
Amount due to a related company	12,728	11,308	11,310
Taxation payables	5,858	—	535
Bank borrowings	29,368	36,117	31,702
Gold loans	12,505	13,263	12,227
Dividend payables	—	—	9,000
	<u>88,963</u>	<u>84,533</u>	<u>88,868</u>
Net current assets	<u>50,394</u>	<u>49,482</u>	<u>45,837</u>

The Group's net current assets amounted to approximately HK\$50.4 million, HK\$49.5 million and HK\$45.8 million as at 31 March 2017, 31 March 2018 and 31 July 2018 respectively.

As at 31 July 2018, being the Latest Practicable Date for determining the Group's indebtedness, the Group's unaudited net current assets decreased by approximately HK\$3.7 million, or 7.5%, from approximately HK\$49.5 million as at 31 March 2018 to approximately HK\$45.8 million as at 31 July 2018, which was primarily due to an increase in the current liabilities from approximately HK\$84.5 million as at 31 March 2018 to approximately HK\$88.9 million as at 31 July 2018, while current assets remained relatively stable at the same two periods. The increase in current liabilities was mainly due to dividend payables of HK\$9.0 million that was declared but not yet paid as at 31 July 2018. This was offset by a decrease in bank borrowings from approximately HK\$36.1 million as at 31 March 2018 to approximately HK\$31.7 million as at 31 July 2018. The amounts due from related companies will be completely settled before Listing.

FINANCIAL INFORMATION

As at 31 March 2018, the Group's unaudited net current assets were slightly decreased by approximately HK\$912,000, or 1.8%, from approximately HK\$50.4 million as at 31 March 2017 to approximately HK\$49.5 million as at 31 March 2018, which was primarily due to (i) the increase in bank borrowings of approximately HK\$6.7 million; (ii) the increase in bank balances and cash of approximately HK\$5.1 million; (iii) the increase in gold loans of approximately HK\$758,000.

As at 31 March 2017, the Group's net current assets amounted to approximately HK\$50.4 million, in which the Group's current assets mainly consisted of (i) inventories of approximately HK\$73.2 million; (ii) trade receivable, prepayments and deposits of approximately HK\$23.0 million; (iii) amounts due from related companies of approximately HK\$23.6 million; (iv) bank balances and cash of approximately HK\$19.4 million; and the Group's current liabilities mainly consisted of (a) trade and other payables of approximately HK\$25.0 million; (b) amounts due to a related company of approximately HK\$12.7 million; (c) taxation payables of approximately HK\$5.9 million; (d) bank borrowings of approximately HK\$29.4 million; and (e) gold loans of approximately HK\$12.5 million.

ANALYSIS OF VARIOUS ITEMS FROM THE COMBINED STATEMENT OF FINANCIAL POSITION

Property, plant and equipment

As at 31 March 2017 and 31 March 2018, the Group's property, plant and equipment comprised furniture, fixtures and equipment, motor vehicles, machinery and leasehold improvements. The carrying amount of property, plant and equipment was relatively stable in the years ended 31 March 2017 and 31 March 2018.

Deferred tax assets

As at 31 March 2017 and 31 March 2018, the Group has deferred tax assets of approximately HK\$1.4 million and approximately HK\$643,000, respectively. The deferred tax asset arose as a result of unused tax losses available for offset against future profits of approximately HK\$2.3 million and HK\$439,000 respectively. No additional deferred tax assets has been recognised in relation to such deductible temporary differences as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

Long-term rental deposits

Long-term rental deposits as at 31 March 2017 and 31 March 2018 represented the Group's rental deposits for retail stores and office where the expiry dates of the leases were due more than one year from the respective year/period-end dates. As at 31 March 2017 and 31 March 2018, rental deposits and other deposits amounted to approximately HK\$2.4 million and HK\$2.3 million, respectively.

FINANCIAL INFORMATION

Inventories

The inventories of the Group comprised raw material, work in progress and finished products. The following table sets forth a breakdown of inventories balances by product categories in terms of major components of the jewellery products as at 31 March 2017 and 31 March 2018:

	At 31 March	
	2017	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
Raw material	8,631	7,606
Work in progress	856	441
Finished products	63,735	65,058
Total	73,222	73,105

	Year ended 31 March	
	2017	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
Gem-set jewellery products	60,984	55,948
Pure gold products	12,238	17,157
Total	73,222	73,105

The Group's total inventories balances remained relatively stable as at 31 March 2017 and 31 March 2018. The following table sets forth the inventory turnover days for the years indicated.

	Year ended 31 March	
	2017	2018
Inventory turnover days	169 days	231 days

Note: The inventory turnover days is calculated based on the average of the beginning and ending balance of inventories divided by the cost of goods sold for the year, then multiplied by the number of days in the year (i.e. 365 days).

FINANCIAL INFORMATION

It is the Group's inventories policy to keep adequate inventories level to cope with customers demand and adjust according to the timing of planned marketing and promotion activities.

The inventory turnover days increased during the Track Record Period and amounted to approximately 169 days and 231 days respectively due to the increase in inventories required for the new retail store opened in Tuen Mun.

The ageing analysis of the Group's inventories as at 31 March 2017 and 31 March 2018 is as follows:

	At 31 March	
	2017	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
0-2 years	50,098	53,829
2-3 years	8,108	3,262
3-4 years	5,027	6,467
4-5 years	4,376	2,900
Over 5 years	5,613	6,647
Total	73,222	73,105

According to the Frost & Sullivan Report, jewellery products (mainly raw materials, in particular, gemstones and other precious metals) are generally durable and considered as lifetime treasure. On the other hand, the typical product life cycle of a particular design of finished goods is approximately 4 to 5 years. As at 31 March 2018, approximately HK\$53.8 million of the Group's inventories balance were aged 0-2 years, representing approximately 73.6% of the Group's inventories balance as at 31 March 2018. The increase in inventories aged 0-2 years was mainly due to the new retail store in Tuen Mun.

The decrease in inventories aged between 2-3 years by approximately HK\$4.8 million as at 31 March 2018 as compared to that as at 31 March 2017 was mainly due to (i) a portion of inventories being transferred to the next ageing category of 3-4 years and (ii) an increase in sales volume as the Company focused on selling more products with lower average selling prices.

The inventory aged between 3-4 years as at 31 March 2018, represents the inventory that was not sold in the inventory ageing category of 2-3 years as at 31 March 2017, and so on. Accordingly, due to the Group's increase in sales volume, the inventory balances in the ageing category of 3-4 years (as compared to ageing category of 2-3 years as at 31 March 2017) and 4-5 years (as compared to ageing category of 3-4 years as at 31 March 2017) decreased as at 31 March 2018. The inventory ageing category of over 5 years, increased as such inventory included (i) raw materials that are not provided for; and (ii) finished goods that typically contain larger sized gemstones jewellery products that tend to be more slow-moving in nature with higher average cost.

FINANCIAL INFORMATION

The Group's management carries out an inventory review and ageing analysis on a regular basis, and makes allowances for obsolete and slow-moving inventory items identified that are no longer suitable for use in production or trading. The evaluation considers a number of factors including historical and forecast consumption of the raw materials and marketability of inventories. The Group also makes allowances for long-aged inventories based on past experience for the costs incurred for such long-aged inventories to make the sale. The Group normally make allowances for inventories aged over four years which have been identified as slow moving inventory or have deteriorated marketability.

As at the Latest Practicable Date, approximately 51.4%, or approximately HK\$37.6 million of the Group's inventories as at 31 March 2018 was subsequently utilised.

Trade receivables

The Group's trade receivables were mainly from its wholesale customers who the Group provides credit period to them for sales. The Group's trade receivables (net of allowance for doubtful debts) decreased from approximately HK\$20.9 million as at 31 March 2017 to approximately HK\$8.1 million as at 31 March 2018, which was mainly due to the decrease in revenue. The following table sets forth the trade receivables turnover days for the years ended 31 March 2017 and 2018.

	Year ended 31 March	
	2017	2018
Trade receivable turnover days	35 days	31 days

Note: The trade receivable turnover days is calculated based on the average of the beginning and ending balance of trade receivables (net of allowance for doubtful debts), divided by sales for the year, then multiplied by the number of days in the year (i.e. 365 days).

The Group's trade receivable turnover days remained relatively stable during the years ended 31 March 2017 and 2018, and amounted to approximately 35 days and 31 days, respectively.

The Group allows a credit period of generally 90 days to its wholesale customers. A relatively longer credit period may be granted to large or long-established wholesale customers with good payment history.

Before accepting any new customers, the Group will internally assess the potential wholesale customer's credit quality and defines credit limits by wholesale customers. The management closely monitors the credit quality and follow up actions will be taken if overdue debts are noted. Credit limits attributed to customers and credit term granted to wholesale customers are reviewed on a regular basis. Approximately 70% and 69% of trade receivables as at 31 March 2017 and 31 March 2018 respectively are neither past due nor impaired and they were assessed to be of good credit attributable under the credit control system used by the Group.

FINANCIAL INFORMATION

The Group's management takes into consideration of wholesale customers' credit history, settlement patterns, subsequent settlements and ageing analysis of trade receivables in determining the recoverability of the overdue trade receivables. The Directors consider that the concentration of credit risk is limited due to the Group's customer base being relatively large and unrelated.

The following table sets forth the ageing analysis of the Group's trade receivables based on the invoice date, as at 31 March 2017 and 31 March 2018:

	At 31 March	
	2017	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 to 30 days	3,166	2,493
31 to 60 days	3,390	2,570
61 to 90 days	2,584	1,016
Over 90 days	11,793	2,053
Total	20,933	8,132

As at 31 March 2017 and 31 March 2018, trade receivables of approximately HK\$6.2 million and HK\$2.5 million respectively are past due but not impaired. Such receivables related to a number of customers of which substantial subsequent settlements were made. The Group does not hold any collateral as security over these balances. The ageing analysis of these trade receivables is as follows:

	At 31 March	
	2017	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
Overdue by:		
0 to 30 days	3,330	1,174
31 to 60 days	924	440
61 to 90 days	560	92
Over 90 days	1,424	818
Total	6,238	2,524

The Group had made impairments of trade receivables of approximately HK\$1.6 million and approximately HK\$nil million recognised for the years ended 31 March 2017 and 2018, respectively. The impairment made in for the year ended 31 March 2017 was subsequently reversed for the year ended 31 March 2018 as such balance was subsequently settled.

As at the Latest Practicable Date, approximately 94.3%, or approximately HK\$7.7 million of the Group's trade receivables as at 31 March 2018 was subsequently settled.

FINANCIAL INFORMATION

Prepayments and deposits

Prepayments and deposits mainly consisted of (i) rental deposits; (ii) deferred listing expenses; (iii) prepayment and other and deposits such as utility deposits of the Group's retail stores.

The following table sets forth the details of the Group's prepayments and deposits as at 31 March 2017 and 31 March 2018:

	At 31 March	
	2017	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
Prepayment and other deposits	1,770	1,063
Rental deposits	324	746
Deferred listing expenses/issue costs	—	2,641
Total	2,094	4,450

The balance of prepayments and deposits increased by approximately HK\$2.4 million, from approximately HK\$2.1 million as at 31 March 2017 to approximately HK\$4.5 million as at 31 March 2018, which was mainly due to the increase in deferred listing expenses/issue costs of approximately HK\$2.6 million.

Trade payables

Trade payables were related to the Group's purchase of jewellery products from third party suppliers and a Director. The following table sets forth a breakdown of trade payables:

	At 31 March	
	2017	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade payables	10,896	9,024

Payments to third party suppliers are generally made cash on delivery, some of the Group's suppliers of diamonds and other gemstones offered as a credit period of up to 180 days after delivery. The Group's trade payables to third party suppliers of approximately HK\$10.9 million as at 31 March 2017 decreased by approximately HK\$2.0 million to approximately HK\$9.0 million as at 31 March 2018, which was mainly due to the Group paying its suppliers in accordance with the credit period granted to the Group.

FINANCIAL INFORMATION

The following table sets forth the trade payables turnover days for the years below:

	Year ended 31 March	
	2017	2018
Trade payable turnover days	27 days	31 days

Note: The trade payable turnover days is calculated based on the average of the beginning and ending balances of trade payables divided by cost of goods sold for the year, then multiplied by the number of days in the year (i.e. 365 days).

The Group's trade payable turnover days slightly increased from approximately 27 days for the year ended 31 March 2017 to approximately 31 days for the year ended 31 March 2018.

The following sets forth an ageing analysis of trade payables based on the invoice date at the end of each reporting period:

	At 31 March	
	2017	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 to 30 days	2,611	1,748
31 to 60 days	2,008	1,599
61 to 90 days	2,407	2,269
Over 90 days	3,870	3,408
Total	10,896	9,024

As at the Latest Practicable Date, approximately 98.4%, or approximately HK\$8.9 million of the Group's trade payables as at 31 March 2018 was subsequently settled.

Accruals, customer deposits and other payables

Accruals, customer deposits and other payables mainly consisted of accrued operating expenses, customer deposits received, accrual tax incident and trade payables.

FINANCIAL INFORMATION

The following table sets forth the details of the Group's accruals, customer deposits and other payables as at 31 March 2017 and 31 March 2018:

	At 31 March	
	2017	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
Customer deposits	4,046	5,700
Accrued staff cost	1,307	1,433
Accrued additional other payments in respect of tax incident	5,667	—
Accrued listing expenses	—	4,267
Other payable and accrued charges	3,085	3,421
Total	14,105	14,821

Customer deposits mainly represented amounts received from customers of the Group's retail business in relation to the customer reward schemes that the Group launched to attract customers. Such amounts will be used by the customers to redeem certain products, in accordance with the policies of such reward schemes. Customer deposits increased from approximately HK\$4.0 million as at 31 March 2017 to approximately HK\$5.7 million as at 31 March 2018 as more customers participate in the customer reward schemes. For further details, please refer to subsection headed "Business — Marketing and promotion — Customer reward scheme" in this prospectus. Other payable and accrued charges include accrued audit fee, accrued utilities expenses and other operating expenses. Accrued additional other payments in respect of tax incident represents the amount of potential penalties in relation to the tax incident. Please refer to section headed "Business — Tax incident" and the paragraph headed "Principal components of the Group's combined statement of profit or loss and other comprehensive income — Taxation" in this section for more details. The balance of accrued additional other payments in respect of tax incident of approximately HK\$5.7 million as at 31 March 2017 was completely settled as at 31 March 2018. Accrued staff costs includes salary payments to staff accrued as at the relevant balance sheet date and remained relatively stable as of the years ended 31 March 2017 and 2018.

Bank borrowings

As at 31 March 2017 and 31 March 2018, all of the bank borrowings are guaranteed by the directors of the Company and guaranteed by a related company.

FINANCIAL INFORMATION

The following table sets forth the Group's bank borrowings as at 31 March 2017 and 31 March 2018:

	At 31 March	
	2017	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
Secured bank loans	29,268	36,054
Unsecured bank loans	100	—
Bank overdrafts	—	63
Total	29,368	36,117

The Group's bank loans are payable as follows:

	At 31 March	
	2017	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
Bank borrowings are repayable		
Within 1 year	2,812	3,697
After 1 year but within 2 years	2,828	3,869
After 2 years but within 5 years	8,976	12,263
After 5 years	14,752	16,225
Total bank borrowings	29,368	36,054

Comprising:

Amounts due within one year shown under current liabilities and containing a repayment on demand clause	2,812	3,697
Amounts that are not repayable within one year from the end of the reporting period but containing a repayment on demand clause	26,556	32,357
Total	29,368	36,054

The Group's banking facility letter contains a clause which gives the lender the right at its sole discretion to demand immediate repayment at any time irrespective of whether the Group has complied with the covenants and met the scheduled repayment obligations. As such, this balance has been classified as a current liability.

Revolving borrowings bear variable rate ranging from Hong Kong Dollar Prime Rate minus 2.5% to Hong Kong Dollar Prime Rate minus 2.0% as at 31 March 2017 and 31 March 2018 respectively. During the Track Record Period, the weighted average interest rates of the Group's bank loans amounted to 2.89% and 2.80% respectively.

FINANCIAL INFORMATION

The Group's bank loans increased by approximately HK\$6.7 million from approximately HK\$29.4 million as at 31 March 2017 to approximately HK\$36.1 million as at 31 March 2018, which was mainly due to net combined effects of (i) new bank loans of approximately HK\$10.0 million; offset by (ii) repayment of bank loans of approximately HK\$3.3 million during the year ended 31 March 2018.

The personal guarantees provided by the Directors and the corporate guarantee provided by a related company will be released upon the Listing.

Gold loans

Gold loans represent borrowings from banks with amounts payable that are pegged to gold prices. The loan amount is initially derived based on a fixed price of gold at the time of taking out the loan multiplied by weight of gold (typically in ounces). At any given reporting date, the fair value of the gold loan will be computed and any revaluation gain / losses will be recognised in the income statement. The loans have maturity of three months and are denominated in US dollars. On maturity, the amount of loan based on the prevailing gold price will be repaid to the bank. This is different from a normal loan where the total loan amount will not change over time up to maturity. As at 31 March 2017 and 31 March 2018, all of the gold loans are guaranteed by the directors of the Company and a related company.

Gold loans were borrowed to reduce the impact of the fluctuations in gold prices on gold inventories. By taking out a gold loan, the Group can indirectly manage its exposure to fluctuations in gold prices, as any potential gain or loss from the gold loan will largely be offset by the inherent effect arising from the Group's daily business. For example, if the gold price increases, the Company's turnover from pure gold products will increase, offsetting the fair value loss from the revaluation of the gold loan and vice versa. Accordingly, any net financial impact of gold loans the Group's profitability will not be material. The maximum financial exposure on the outstanding positions of such gold loans as at each of the year end date during the Track Record Period would be the outstanding amount of such gold loans as at the respective dates.

The following table sets forth the Group's gold loans as at 31 March 2017 and 31 March 2018:

	At 31 March	
	2017	2018
	<i>HK\$000</i>	<i>HK\$000</i>
Gold loan denominated in USD	12,505	13,263

The gold loans carry fixed interest rates of 3.6% and 3.8% per annum as at 31 March 2017 and 31 March 2018 with original maturity of three months from date of inception. Accordingly they are classified as current liabilities. During the Track Record Period, the weighted average interest rates of the Group's gold loans amounted to 3.60% and 3.80% respectively.

FINANCIAL INFORMATION

The personal guarantees provided by the Directors and the corporate guarantee provided by a related company will be released upon the Listing.

Amounts due to / from related parties

The following table sets forth amounts due to / from related parties as at the dates indicated:

	At 31 March	
	2017	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
Amounts due to related parties		
Amounts due to Directors:		
- Mr. Fu	2,483	—
- Ms. Cheung	740	—
- Ms. Fu	280	—
Subtotal	3,503	—
Amounts due to a related company		
- Dia Myth	12,728	11,308
Total	16,231	11,308
Amounts due from related parties		
Amounts due from related companies		
- Dia Myth	20,361	19,975
- Grand Rise	3,276	3,240
Total	23,637	23,215

As at 31 March 2017, the Group's amounts due to Directors were approximately HK\$3.5 million, which primarily consist of (i) amounts due to Mr. Fu of approximately HK\$2.5 million; (ii) amounts due to Ms. Cheung of approximately HK\$740,000; and (iii) amounts due to Ms. Fu of approximately HK\$280,000. As at 31 March 2018, all such amounts due to Directors were settled.

The Group's amounts due to a related company were approximately HK\$12.7 million as at 31 March 2017 and approximately HK\$11.3 million as at 31 March 2018. Such amount primarily consist of amounts due to Myth.

As at 31 March 2017 and 31 March 2018, the Group's amounts due from related parties were approximately HK\$23.6 million and HK\$23.2 million, which primarily consist of (i) amounts due from Myth of HK\$20.4 million and HK\$20.0 million as at the respective dates; and (ii) amounts due from Grand of approximately HK\$3.3 million and HK\$3.2 million as at the respective dates.

FINANCIAL INFORMATION

As at the Latest Practicable Date, all balances from the related parties as at 31 March 2018 will be fully settled upon Listing.

RELATED PARTY TRANSACTIONS

During the Track Record Period, the Group had entered into lease agreements with certain related parties for the renting of the Company's office, a retail store and the aggregate rental expenses paid to such related parties amounted to approximately HK\$1.9 million and approximately HK\$1.9 million for the year ended 31 March 2017 and the year ended 31 March 2018 respectively, details of which are set out in note 29 of the Accountants' Report as set out in Appendix I to this prospectus.

The Directors confirm that these transactions were conducted on normal commercial terms and the terms were no less favourable than terms available from Independent Third Parties which are considered fair and reasonable and in the interests of the Shareholders as a whole. Based on the foregoing, the Directors are of the view that the aforesaid related party transactions would not distort the Group's financial results during the Track Record Period or make the Group's historical results not reflective of the Group's future performance. For further details, please refer to the section headed "Connected transactions" in this prospectus.

INDEBTEDNESS

At the close of business on 31 July 2018, being the latest practicable date on which indebtedness information was available to the Group, the Group had outstanding total bank borrowings and gold loans of approximately HK\$43.9 million. The effective contractual interest rate of the Group's bank borrowings ranged from Hong Kong Dollar Prime Rate minus 2% to Hong Kong Dollar Prime Rate minus 2.5% per annum and that of the Group's gold loans ranged from 3.8% to 3.9% per annum. All of the Group's bank borrowings were guaranteed by the executive Directors and two related companies. Such personal guarantees provided by the Directors and the related companies will be released upon the Listing. As at the 31 July 2018, the Group had unutilised banking facilities of approximately HK\$25.4 million.

As at 31 July 2018, the Group has an amount due to a related company of HK\$11.3 million, which is interest free, unsecured and unguaranteed and will be fully settled before Listing.

To the best knowledge and belief of the Directors, the Group will not have difficulties in obtaining and/or renewing banking facilities. Based on the business and financial performance of the Group, the Directors are not aware of any circumstances in which the Group's ability to obtain external financing in the future may be affected by the recent global financial market volatility and credit tightening, and they expect the Group's banking facilities to be renewed after Listing.

FINANCIAL INFORMATION

Financial guarantee and contingent liabilities

As at 31 July 2018, the Group has given guarantees jointly with the director of the Company, the former non-controlling shareholders at certain Group companies and along with a legal charge from a related company, Dia Myth, to banks to secure certain general banking facilities granted to a related company and the Group. At 31 July 2018, out of the banking facilities granted, HK\$2.3 million was utilised by the related company. Such guarantees/legal charges will be released upon Listing.

Save as indebtedness disclosed in this sub-section and apart from normal trade and other payables and tax payable, the Group did not have any mortgages, charges, debentures, loan capital, bank loans and overdrafts, debt securities or other similar indebtedness, finance leases or hire purchase commitments, liabilities under acceptances or acceptance credits or any guarantees or other material contingent liabilities outstanding as at the closure of business on 31 July 2018.

LISTING EXPENSES

For the years ended 31 March 2017 and 2018, the Group incurred Listing expenses of nil and approximately HK\$8.2 million respectively. Based on the mid-point of indicative Offer Price range, the Group expects to incur total Listing expenses (including underwriting fees and commission) of approximately HK\$23.0 million of which the Group (i) has recognised nil and approximately HK\$8.2 million in the profit or loss for the years ended 31 March 2017 and 2018, respectively; (ii) expects to recognise an additional amount of approximately HK\$6.7 million in the combined statement of profit or loss for the year ending 31 March 2019; and (iii) expects to recognise approximately HK\$8.2 million as a deduction in equity directly for the year ending 31 March 2019.

The Directors would like to emphasise that the Listing expenses stated above are non-recurring in nature and the current estimation for reference purpose and the actual amount to be recognised is subject to adjustments based on audits and the then changes in variables and assumptions. Prospective investors should note that the financial performance of the Group for the year ending 31 March 2019 would be materially and adversely affected by the Listing expenses mentioned above.

DISCLAIMER

Save as indebtedness disclosed in the sub-section headed “Financial information — Indebtedness” and apart from normal trade payables and accrued charges, as at 31 March 2018, the Group did not have any outstanding mortgages, charges, debentures, loan capital, bank loans and overdrafts, debt securities, or other similar indebtedness, finance leases or hire purchase commitments, liabilities, under acceptances or acceptance credits or guarantees or other material contingent liabilities.

WORKING CAPITAL SUFFICIENCY

Taking into account the financial resources available to the Group including internally generated resources, the available banking facilities and the estimated net proceeds from the Share Offer, the Directors are of the opinion, and the Sole Sponsor concurs that the Group has sufficient working capital for its present requirements for at least the next 12 months from the date of this prospectus.

FINANCIAL INFORMATION

CAPITAL EXPENDITURE AND COMMITMENT

The Group's capital expenditures mainly consisted of purchase of furniture, fixtures and equipment and leasehold improvements. The Group primarily funded its capital expenditures through cash flows generated from operations and bank borrowings.

As at 31 March 2017 and 31 March 2018, the Group did not have significant capital commitment.

OPERATING LEASE COMMITMENTS

As at 31 March 2017 and 31 March 2018, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	At 31 March	
	2017	2018
	HK\$'000	HK\$'000
Within one year	10,087	9,713
In the second to fifth year inclusive	<u>8,178</u>	<u>2,279</u>
Total	<u><u>18,265</u></u>	<u><u>11,992</u></u>

The Group's operating lease commitments decreased from approximately HK\$18.3 million as at 31 March 2017 to approximately HK\$12.0 million as at 31 March 2018, which was mainly due to the reduction in future minimum lease payments for actual rental payment made during the year ended 31 March 2018.

On 1 April 2018, CFJ Limited (as tenant) and Grand Rise (a related company, as landlord) entered into a tenancy agreement in relation to the lease of the Tsuen Wan retail premises. Similarly, on 1 April 2018, CFH Limited (as tenant) and Dia Myth (a related company, as landlord) entered into a tenancy agreement for the lease of the Hung Hom office premises. Both tenancies were agreed after arm's length negotiations with regard to the prevailing market rates. Please refer to the sub-section headed "Connected transactions — Fully exempted continuing connected transactions" in this prospectus for details of the leases entered into with the related companies.

HKFRS 16 "Leases", 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. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under the predecessor standard, HKAS 17. Please refer to the paragraph headed "Accountants' Report — Notes to historical financial information — 3. Application of new and revised Hong Kong Financial Reporting Standards" included as Appendix I to this prospectus for further details.

FINANCIAL INFORMATION

DIVIDEND

During the year ended 31 March 2018, CFJ Limited, KJJ Limited and WR Limited declared and paid dividends in an aggregate amount of HK\$7.0 million to their then shareholders. On 3 April 2018, KJJ Limited and WR Limited declared a special dividend to Mr. Fu, one of the Controlling Shareholders, in aggregate amount of HK\$9.0 million, which will be settled with the Group's internal resources before Listing. Save for the above, no other dividend has paid or declared by the Company since its incorporation and up to the Latest Practicable Date.

The Company does not have a dividend policy or any pre-determined dividend distribution ratio. The declaration, payment and amount of dividends will be at the discretion of the Directors, subject to approval by the Shareholders, and will be dependent upon the Group's earnings, financial conditions, cash requirements and availability, future prospects, contractual restrictions, applicable laws and provisions and other relevant factors.

DISTRIBUTABLE RESERVES

The Company was incorporated on 11 January 2018. As at 31 March 2018, the Company had no distributable reserve available for distribution to the Shareholders.

CONTINGENT LIABILITIES

As at 31 March 2017 and 31 March 2018, the Group has given guarantees jointly with the director of the Company and a related company of HK\$70.6 million and HK\$77.6 million respectively to banks to secure certain general banking facilities granted to a related company and the Group. As at 31 March 2017 and 31 March 2018, the aggregate utilised amount of these banking facilities was approximately HK\$46.1 million and HK\$51.9 million, respectively. Such guarantees will be released upon Listing.

Out of the banking facilities granted, HK\$4.3 million and HK\$4.3 million has been designated for use by the related company and the remaining banking facilities of HK\$66.3 million and HK\$73.3 million has been designated for use by the Group as agreed among the parties as at 31 March 2017 and 31 March 2018, respectively. Save as contingent liabilities disclosed in this sub-section, the Group had no other material contingent liabilities as at the end of the reporting period.

OFF-BALANCE SHEET TRANSACTIONS

Save for the operating lease commitments and contingent liabilities as disclosed in the sub-sections headed "Operating lease commitments" and "Contingent liabilities" in this section and the Accountants' Report in Appendix I to this prospectus, the Group had not entered into any material off-balance sheet transactions or arrangements as at the Latest Practicable Date.

FINANCIAL INFORMATION

KEY FINANCIAL RATIOS

The following table sets forth certain key financial ratios of the Group as at the dates or for the year/period indicated:

	As at/For the year ended 31 March	
	2017	2018
Current ratio ¹ (<i>times</i>)	1.6	1.6
Quick ratio ² (<i>times</i>)	0.7	0.7
Debt to equity ratio ³ (%)	40.7	46.5
Gearing ratio ⁴ (%)	75.8	92.4
Interest coverage ⁵ (<i>times</i>)	9.8	6.8
Return on equity ⁶ (%)	7.0	9.0
Return on total assets ⁷ (%)	2.7	3.5

Notes:

1. Current ratio is calculated based on the total current assets divided by the total current liabilities as at the respective year end.
2. Quick ratio is calculated based on the total current assets less inventories and divided by total current liabilities as at the respective year end.
3. Debt to equity ratio is calculated by the net debt (all borrowings net of bank deposit and cash and cash equivalents) divided by the total equity as at the respective year end and multiplied by 100%.
4. Gearing ratio is calculated based on the interest-bearing liabilities divided by the total equity as at the respective year end and multiplied by 100%.
5. Interest coverage ratio is calculated by the profit before interest and tax divided by the interest for the respective year.
6. Return on equity is calculated by the profit for each respective reporting year divided by the total equity as at the end of each respective reporting year and multiplied by 100%.
7. Return on total assets is calculated by the profit for each respective reporting year/period divided by the total assets as at the end of each respective reporting year and multiplied by 100%.

Please refer to the paragraphs headed “Year-to-year comparison of results of operation” in this section for a discussion of factors affecting revenue growth, gross profit margins and net profit margins during the Track Record Period.

Current ratio

The Group’s current ratio remained stable as at 31 March 2017 and 31 March 2018 and amounted to approximately 1.6 times and 1.6 times respectively.

FINANCIAL INFORMATION

Quick ratio

The Group's quick ratio also remained stable as at 31 March 2017 and 31 March 2018 and amounted to approximately 0.7 times and 0.7 times respectively.

Debt to equity ratio

As at 31 March 2017, the debt to equity ratio was 40.7%. As at 31 March 2018, the Group's debt to equity ratio decreased to approximately 46.5%, mainly due to the increase in bank balances and cash during the year ended 31 March 2018.

Return on equity

The Group's return on equity increased from approximately 7.0% for the year ended 31 March 2017 to approximately 9.0% for the year ended 31 March 2018, primarily attributable to the increase in net profit for the year ended 31 March 2018 mainly due to (i) the increase in the Group's gross profit margin as further explained under the paragraphs headed "Year-to-year comparison of results of operation" in this section; and (ii) the decrease in taxation as a result of the additional tax provision in respect of a tax incident for the year ended 31 March 2017 while no such provision was made for the year ended 31 March 2018. For further details of the tax incident, please refer to the section headed "Business — Tax incident" in this prospectus.

Return on total assets

The Group's return on total assets increased from approximately 2.7% for the year ended 31 March 2017 to approximately 3.5% for the year ended 31 March 2018, primarily attributable to the increase in net profit for the year ended 31 March 2018 mainly due to (i) the increase in the Group's gross profit margin as further explained under the paragraphs headed "Year-to-year comparison of results of operation" in this section; and (ii) the decrease in taxation as a result of the additional tax provision in respect of a tax incident for the year ended 31 March 2017 while no such provision was made for the year ended 31 March 2018. For further details of the tax incident, please refer to the section headed "Business — Tax incident" in this prospectus.

Gearing ratio

The Group's gearing ratio increased from approximately 75.8% as at 31 March 2017 to approximately 92.4% as at 31 March 2018, which was mainly due to the increase in bank borrowings and gold loans for the year ended 31 March 2018.

Interest coverage ratio

The Group's interest coverage ratio decreased from approximately 9.8 times for the year ended 31 March 2017 to approximately 6.8 times for the year ended 31 March 2018, mainly due to the

FINANCIAL INFORMATION

decrease in profit before interest and tax due to listing expenses incurred in the year ended 31 March 2018. As a private company group before Listing, the Group had a relatively low equity base of only approximately HK\$53.5 million as at 31 March 2018. The Group has mainly been relying on borrowings apart from shareholders' capital to finance its operation.

UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

Please refer the section headed "Unaudited pro forma financial information" as set out in Appendix II to this prospectus for details.

CAPITAL RISK MANAGEMENT AND FINANCIAL RISK MANAGEMENT

Capital risk 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 owners through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged over the Track Record Period.

The capital structure of the Group consists of equity attributable to owners of the Group, comprising share capital, retained profits and other reserves.

The management of the Group reviews the capital structure regularly. The Group considers the cost of capital and the risks associated with each class of capital, and will balance its overall capital structure through the payment of dividends, new share issues as well as the raising of bank borrowings.

Financial risk management

The Group is exposed to a variety of financial risks: market risk (interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group does not use derivative financial instruments to hedge its risk exposures to changes in interest rates. Further details on the Group's financial risk management policies and practices are set out in note 7 to the Accountants' Report in Appendix I to this prospectus.

FINANCIAL INFORMATION

DISCLOSURE RELATING TO RULES 17.15 TO 17.21 OF THE GEM LISTING RULES

The Directors have confirmed that, as at the Latest Practicable Date, they were not aware of any circumstances which would give rise to a disclosure requirement under Rules 17.15 to 17.21 of the GEM Listing Rules.

RECENT DEVELOPMENT AND NO MATERIAL ADVERSE CHANGE

The Group has continued to focus on strengthening its market position and business operations in the jewellery industry in Hong Kong. For the four months ended 31 July 2018, the revenue increased slightly by approximately HK\$2.7 million compared to the revenue in the same period in 2017 and the gross profit margin for the four months ended 31 July 2018 was relatively stable to that during the same period in 2017. Due to inherent uncertainties in the Hong Kong economy in the coming year, particularly in relation to increased competition in the retail jewellery market, the Company may record a decline in its revenue and due to a potential increase in its staff costs, rental and depreciation charges as a result of the proposed opening of a new retail and flagship store which is contingent on the Listing, its adjusted net profit (excluding listing expenses) for the year ending 31 March 2019 may decline compared to the same for the year ended 31 March 2018. Furthermore, as a result of Listing expenses, the Company's net profit for the year ending 31 March 2019 may be adversely affected.

Save for the above and the Listing expenses as disclosed in the paragraph headed "Listing expenses" in this section, the Directors confirm that, up to the date of this prospectus, there had been no material adverse change in the financial or trading positions or prospect of the Group since 31 March 2018, being the date to which the latest audited financial statements of the Group were made up, and there had been no event since 31 March 2018 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 refer to the section headed “Business — Business strategies” in this prospectus for the Group’s business objectives and strategies.

REASONS FOR THE SHARE OFFER

The Directors believe that the Share Offer will enhance the Group’s profile, strengthen financial position and competitiveness, and provide the Group with additional capital to implement its future plans set out in the paragraph headed “Implementation plans” in this section.

The Directors further believe that the Listing would:

- Help the Group in capturing market opportunities. According to the Frost & Sullivan Report, driven by the growing consumption power of local residents and recovering economic environment, the market of jewellery retail and wholesale in Hong Kong is expected to reach approximately HK\$85.7 billion for the year ended 31 March 2022, representing a CAGR of approximately 5.2% from the year ending 31 March 2019 to the year ending 31 March 2022. In view of the abovementioned industry outlook, in order to capture the industry growth and to maintain the Group’s market position in the small and medium local jewellery player segment in Hong Kong, the Group intends to expand its retail presence in Hong Kong by opening a new retail store. The Directors believe that the opening of the new retail store would enable the Group to capture business opportunities in the jewellery retail and wholesale market in Hong Kong and enhance the Group’s corporate profile and recognition and assist the Group in reinforcing its brand image and public awareness.
- Strengthen the Group’s credibility and competitiveness. The Directors believe that the increased level of information transparency after the Listing will give the Company’s existing and prospective stakeholders public access to the Group’s corporate and financial information, which could generate further confidence in the Group and its products. The status of being a listed company on GEM will also raise the Group’s reputation amongst its competitors, which will help the Group implement its business strategies and expand its customer base and market share within the industry.
- Provides an equity fund-raising platform for the Group. Although the Group was able to successfully expand its business using internally generated funds and bank borrowings during the Track Record Period, the Group still plans to seek equity fund raising instead of continuing to use the historical capital structure to fund its future growth, as it will place undue financial burden on the Group in terms of cash flow if it is to apply all its internal capital resources for growth purpose. As the Group does not own real property, it cannot offer real property as security for bank loans and therefore it can sometimes be difficult for the Group to borrow external financing. The Group’s current cash and bank balance as at 31 March 2018 is approximately HK\$24.5 million. As at 31 July 2018, the Group has unutilised banking facilities (for all bank borrowings including bank loans and gold loans) in the sum of approximately HK\$25.4 million. On the other hand, the Group will have an

FUTURE PLANS AND USE OF PROCEEDS

expected cash outflow of (i) approximately HK\$9.0 million relating to the Group's trade payables as at 31 March 2018; (ii) approximately HK\$3.5 million per month on average monthly operating expenses or approximately HK\$31.4 million relating to the selling and distribution costs and approximately HK\$10.8 million relating to general and administrative costs to be incurred in the financial year ending 31 March 2019; (iii) approximately HK\$3.8 million of bank borrowings repayable during the year ending 31 March 2019 ; (iv) approximately HK\$6.7 million being listing expenses to be incurred in the financial year ending 31 March 2019. Assuming the Group has no sales revenue in the financial year ending 31 March 2019, the Group will have a shortfall in cashflow of approximately HK\$11.8 million. Sales revenue cannot be predicted with any degree of certainty, especially in the retail industry where no long term contract exists between the customers and the retailer, and may be affected by a lot of factors out of the Group's control. For details please refer to the section headed "Risk Factors" in this prospectus.

- The Share Offer, which allows the Company to access the capital market for fund raising, will assist the Group's future business development and strengthen its competitiveness. Subsequent to the Listing, the Group will also have access to secondary market fund raising for its future expansion plans through the issuance of equity and/or debt securities. By strengthening its financial position through fund-raising, the Group will also have more bargaining power when negotiating terms with its suppliers for procuring jewellery raw materials, and with other business partners, if any.

- Enhance the liquidity of the Shares which will be freely traded in the Stock Exchange when compared to the limited liquidity of shares that are privately held before the Listing. Hence, the Directors consider that the Share Offer will enlarge and diversify the shareholder base and potentially lead to a more liquid market in the trading of the Company's Shares.

Having considered the benefits above, although the amount of the expenses for the Listing represents a significant proportion of the gross proceeds from the Share Offer, the Directors are of the view that such proportion is justifiable, and given the benefits as stated above, the Directors believe that the Listing is beneficial to the Group in the long run.

IMPLEMENTATION PLANS

In pursuance of the business objectives set out above, the implementation plans of the Group are set forth below during the period from the Latest Practicable Date to 30 September 2018, and subsequently each of the six-month period until 31 March 2021. Investors should note that the implementation plans and their scheduled times for attainment are formulated on the bases and assumptions referred to in "Bases and assumptions" in this section. These bases and assumptions are subject to uncertainties, variables and unpredictable factors, in particular the risk factors set out in the section headed "Risk factors" in this prospectus. The Group's actual course of business may vary from the business objectives set out in this prospectus. There can be no assurance that the plans of the Group will be materialised in accordance with the expected time frame or that the business objectives of the Group will be accomplished at all.

FUTURE PLANS AND USE OF PROCEEDS

From the Latest Practicable Date to 30 September 2018

Business strategy	Implementation plans	Amount to be applied from the net proceeds of the Share Offer (approximately)
Expand the Group's retail presence	— Explore, identify and confirm potential flagship retail store in Mongkok or Tsim Sha Tsui	Nil, to be funded by the Group's internal resources
Expand the Group's jewellery design collection	— Actively participate in industry and trade shows	Nil, to be funded by the Group's internal resources
	— Expand the Group's jewellery design collection in line with customer needs and preferences and market trends	

From 1 October 2018 to 31 March 2019

Business strategy	Implementation plans	Amount to be applied from the net proceeds of the Share Offer (approximately)
Expand the Group's retail presence	— Open one retail store in Mongkok or Tsim Sha Tsui with a floor area of approximately 1,800 sq. ft.	
	(i) Payment of rental deposit	HK\$3.2 million
	(ii) Payment of renovation costs	HK\$2.1 million
	(iii) Purchase of inventories	HK\$15.0 million
	— Recruitment of 17 new sales staff as follows: <ul style="list-style-type: none"> — 1 shop manager — 16 sales person 	HK\$1.5 million
Enhance the Group's brand recognition	— Launching various marketing and promotional activities	HK\$0.8 million
	— Refurnishing the Group's existing retail stores	HK\$0.8 million
Expand the Group's jewellery design collection	— Actively participate in industry and trade shows	Nil, to be funded by the Group's internal resources
	— Expand the Group's jewellery design collection in line with customer needs and preferences and market trends	

FUTURE PLANS AND USE OF PROCEEDS

From 1 April 2019 to 30 September 2019

Business strategy	Implementation plans	Amount to be applied from the net proceeds of the Share Offer (approximately)
Expand the Group's retail presence	— Payment of remaining balance of renovation costs for the new flagship retail store	HK\$0.9 million
	— Continue to pay salaries to the sales staff of the newly opened retail store	HK\$1.5 million
Enhance the Group's brand recognition	— Launching various marketing and promotional activities	HK\$0.8 million
	— Refurnishing the Group's existing retail stores	HK\$0.8 million
Expand the Group's jewellery design collection	— Actively participate in industry and trade shows	Nil, to be funded by the Group's internal resources
	— Expand the Group's jewellery design collection in line with customer needs and preferences and market trends	

From 1 October 2019 to 31 March 2020

Business strategy	Implementation plans	Amount to be applied from the net proceeds of the Share Offer (approximately)
Expand the Group's retail presence	— Continue to pay salaries to the sales staff of the newly opened retail store	HK\$1.5 million
Enhance the Group's brand recognition	— Launching various marketing and promotional activities	HK\$0.8 million
	— Refurnishing the Group's existing retail stores	HK\$0.8 million
Expand the Group's jewellery design collection	— Actively participate in industry and trade shows	Nil, to be funded by the Group's internal resources
	— Expand the Group's jewellery design collection in line with customer needs and preferences and market trends	

FUTURE PLANS AND USE OF PROCEEDS

From 1 April 2020 to 30 September 2020

Business strategy	Implementation plans	Amount to be applied from the net proceeds of the Share Offer (approximately)
Expand the Group's retail presence	— Continue to pay salaries to the sales staff of the newly opened retail store	HK\$1.5 million
Enhance the Group's brand recognition	— Launching various marketing and promotional activities	HK\$0.8 million
	— Refurnishing the Group's existing retail stores	HK\$0.8 million
Expand the Group's jewellery design collection	— Actively participate in industry and trade shows	Nil, to be funded by the Group's internal resources
	— Expand the Group's jewellery design collection in line with customer needs and preferences and market trends	

From 1 October 2020 to 31 March 2021

Business strategy	Implementation plans	Amount to be applied from the net proceeds of the Share Offer (approximately)
Expand the Group's retail presence	— Continue to pay salaries to the sales staff of the newly opened retail store	Nil, to be funded by the Group's internal resources
Enhance the Group's brand recognition	— Launching various marketing and promotional activities	Nil, to be funded by the Group's internal resources
	— Refurnishing the Group's existing retail stores	
Expand the Group's jewellery design collection	— Actively participate in industry and trade shows	Nil, to be funded by the Group's internal resources
	— Expand the Group's jewellery design collection in line with customer needs and preferences and market trends	

FUTURE PLANS AND USE OF PROCEEDS

USE OF PROCEEDS FROM THE SHARE OFFER

The implementation of the business strategies to achieve the Group's business objectives from the Latest Practicable Date to 31 March 2021 will be funded by a combination of the net proceeds from the Share Offer, internally generated financial resources from the Group's business operations and, if appropriate, additional funding by way of bank financing. The following table sets forth the amount of net proceeds from the Share Offer which the Company will receive if the Offer Price is fixed at low-end, mid-point and high-end of the indicative range of the Offer Price:

	<u>Listing expenses (approximately)</u>	<u>Amount of net proceeds from the Share Offer (approximately)</u>
If the Offer Price is fixed at HK\$0.30 (being the low-end of the indicative range of the Offer Price)	HK\$22.9 million	HK\$33.4 million
If the Offer Price is fixed at HK\$0.32 (being the mid-point of the indicative range of the Offer Price)	HK\$23.0 million	HK\$37.0 million
If the Offer Price is fixed at HK\$0.34 (being the high-end of the indicative range of the Offer Price)	HK\$23.4 million	HK\$40.4 million

The following table sets forth the proposed allocation of the net proceeds from the Share Offer (assuming that the Offer Price is HK\$0.32, being the mid-point of the indicative range of the Offer Price):

	<u>From the Latest Practicable Date to 30 September 2018</u>	<u>For the six months ending</u>				<u>Total</u>	<u>Percentage of net proceeds from the Share Offer</u>
		<u>31 March 2019</u>	<u>30 September 2019</u>	<u>31 March 2020</u>	<u>30 September 2020</u>		
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>(%)</i>	
Expand the Group's retail presence	—	21,750	2,350	1,450	1,450	27,000	73.0
Enhance the Group's brand recognition	—	1,575	1,575	1,575	1,575	6,300	17.0
General working capital	—	925	925	925	925	3,700	10.0

FUTURE PLANS AND USE OF PROCEEDS

Based on the Offer Price of HK\$0.32 per Offer Share, being the mid-point of the indicative Offer Price range of HK\$0.30 per Offer Share to HK\$0.34 per Offer Share, the Company intends to apply the net proceeds from the Share Offers follows:

- approximately 73.0%, or HK\$27.0 million, will be used to expand the Group's retail presence;
- approximately 17.0%, or HK\$6.3 million, will be used to enhance the Group's brand recognition;
- the remaining amount of approximately HK\$3.7 million, representing approximately 10.0% of the net proceeds from the issue of Offer Shares under the Share Offer, will be used to provide funding for the Group's working capital and other general corporate purposes.

If the Offer Price is finally determined to be more than HK\$0.32, being the mid-point of the indicative range of the Offer Price, the above proposed allocation of the net proceeds will increase on a *pro rata* basis. If the Offer Price is less than the mid-point of the indicative range of the Offer Price, the above allocation of the net proceeds will decrease on a *pro rata* basis and the Company plans to finance such shortfall by internally generated financial resources and/or other financing as and when appropriate.

The possible use of proceeds outlined above may change in light of the Group's evolving business needs and conditions, management requirements together with prevailing market circumstances. In the event of any material modification to the use of the proceeds as described above, the Company will issue an announcement and make disclosure in the Company's annual report for the relevant year as required by the GEM Listing Rules.

To the extent that the net proceeds from the issue of Offer Shares under the Share Offer are not immediately required for the above purposes, it is the present intention of the Directors that such net proceeds be placed in short-term interest bearing deposit accounts held with authorised financial institutions.

BASES AND ASSUMPTIONS

The business objectives set out by the Directors are based on the following bases and assumptions:

- the Group will have sufficient financial resources to meet the planned capital expenditure and business development requirements during the period to which the Group's future plans relate;
- there will be no change in the funding requirement for each of the Group's future plans described in this prospectus from the amount as estimated by the Directors;

FUTURE PLANS AND USE OF PROCEEDS

- there will be no material changes in existing laws and regulations, or other governmental policies relating to the Group, or in the political, economic or market conditions in which the Group operates;
- there will be no material changes in the bases or rates of taxation applicable to the activities of the Group;
- the Share Offer will be completed in accordance with and as described in the section headed “Structure and conditions of the Share Offer” in this prospectus;
- the Group is able to maintain its customers;
- there will be no material changes in the industries or businesses of the Group’s major suppliers;
- the Group can maintain the relationship with its suppliers;
- the Group will be able to retain key staff in the management and the main operational departments;
- the Group will be able to continue its operation in substantially the same manner as the Group has been operating during the Track Record Period and the Group will also be able to carry out its development plans without disruptions adversely affecting its operations or business objectives in any way;
- there will be no disasters, natural, political or otherwise, which would materially disrupt the businesses or operations of the Group; and
- the Group will not be materially affected by the risk factors as set out under the section headed “Risk factors” in this prospectus.

UNDERWRITING

UNDERWRITERS

Placing Underwriters

South China Securities Limited
Ping An Securities Limited
CLC Securities Limited
Astrum Capital Management Limited
Cheong Lee Securities Limited
Kingsway Financial Services Group Limited

Public Offer Underwriters

South China Securities Limited
Ping An Securities Limited
CLC Securities Limited
Astrum Capital Management Limited
Cheong Lee Securities Limited
Kingsway Financial Services Group Limited

Joint Lead Managers and Joint Bookrunners

South China Securities Limited
Ping An Securities Limited

Co-Manager

CLC Securities Limited

UNDERWRITING

This prospectus is published solely in connection with the Share Offer. The Share Offer is fully underwritten by the Underwriters on a conditional basis.

PUBLIC OFFER UNDERWRITING ARRANGEMENTS

Public Offer

The Public Offer Underwriting Agreement was entered into on 28 September 2018. Pursuant to the Public Offer Underwriting Agreement, the Company has agreed to offer the Public Offer Shares for subscription by the public in Hong Kong on and subject to the terms and conditions of this prospectus and the Application Forms.

Subject to, among other conditions, the granting of the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus by the Stock Exchange and to certain other conditions set out in the Public Offer Underwriting Agreement, the Public Offer Underwriters have severally agreed to subscribe or procure subscribers for their respective applicable proportions of the Public Offer Shares now being offered which are not taken up under the Public Offer on the terms and conditions of this prospectus, the Application Forms and the Public Offer Underwriting Agreement.

UNDERWRITING

Grounds for termination

The obligations of the Public Offer Underwriters 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 Public Offer Underwriters) has the right, in its absolute determination, to terminate the obligations of the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Co-Manager and the Public Offer Underwriters under the Public Offer Underwriting Agreement upon the occurrence of any of the following events:

- (a) there has come to the notice of the Joint Lead Managers:
 - (i) that any statement contained in this prospectus or the Application Forms, considered by the Joint Lead Managers (for themselves and on behalf of the Public Offer Underwriters) in its reasonable opinion to be material in relation to the Share Offer, was, when the same was issued, or has become, untrue, incorrect or misleading in any material respect or that any forecasts, expressions of opinion, intention or expectation expressed in this prospectus, the Application Forms and/or any announcements issued by the Company in connection with the Share Offer (including any supplement or amendment thereto), was, when it was made, not honestly made in any material respects; or
 - (ii) that any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of this prospectus, constitute a misstatement in a material respect or a material omission therefrom as considered by the Joint Lead Managers (for themselves and on behalf of the Public Offer Underwriters) in its reasonable opinion to be material to the Share Offer; or
 - (iii) any material breach of any of the obligations imposed upon any party under the Public Offer Underwriting Agreement or the Placing Underwriting Agreement (other than on any of the Underwriters); or
 - (iv) any breach, considered by the Joint Lead Managers (for themselves and on behalf of the Public Offer Underwriters) in its reasonable opinion to be material in the context of the Share Offer, of any of the representations, warranties and undertakings given by the Company, our executive Directors and Controlling Shareholders contained in the Public Offer Underwriting Agreement to be untrue, incorrect, inaccurate or misleading in any material respect; or
 - (v) any change or development involving a prospective change in the conditions, business affairs, profits, losses or the financial or trading position or performance of any members of the Group which is considered by the Joint Lead Managers (for themselves and on behalf of the Public Offer Underwriters) in its reasonable opinion to be material in the context of the Share Offer; or

UNDERWRITING

- (vi) approval by the Stock Exchange of the listing of, and permission to deal in, the Shares is refused or not granted, other than subject to customary conditions, on or before the Listing Date, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or
 - (vii) the Company withdraws this prospectus and the Application Forms (and/or any other documents used in connection with contemplated subscription of the Offer Shares) or the Share Offer; or
 - (viii) any person (other than any of the Public Offer Underwriters) has withdrawn or sought to withdraw its consent to being named in this prospectus and the Application Forms or to the issue of this prospectus and the Application Forms; or
 - (ix) other than with the approval of the Joint Lead Managers, the issue or requirement to issue by the Company of any supplement or amendment to this prospectus and the Application Forms (or to any other documents used in connection with the contemplated subscription and sale of the Offer Shares) pursuant to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the GEM Listing Rules, the SFO or any other applicable laws, or any requirement or request of the Stock Exchange and/or the SFC where the matter to be disclosed is, in the sole and reasonable opinion of the Joint Lead Managers (for themselves and on behalf of the Public Offer Underwriters), materially adverse to the marketing or implementation of the Share Offer; or
 - (x) any prohibition on the Company by a governmental authority for whatever reasons from offering, allotting, issuing or selling of the Offer Shares pursuant to the terms of the Share Offer; or
- (b) there shall develop, occur, exist or come into effect:
- (i) any change or development involving a prospective change, or any event or series of events resulting in or representing a change or development involving a prospective change, in local, national, regional or international, financial, political, military, industrial, economic, fiscal, regulatory, currency or market conditions in or affecting Hong Kong, PRC, the Cayman Islands, the BVI or any relevant jurisdiction (collectively, the “**Relevant Jurisdictions**” and individually, a “**Relevant Jurisdiction**”); or
 - (ii) any new law or regulation or any change or development involving a prospective change in existing law or regulation, or any change or development involving a prospective change in the interpretation or application thereof by any court or other competent authority in or affecting any Relevant Jurisdiction; or

UNDERWRITING

- (iii) any event or series of events in the nature of force majeure (whether or not covered by insurance or responsibility has been claimed) including, without limitation, acts of government, strikes, lock-outs, fire, explosions, flooding, earthquakes, epidemics, pandemics, outbreaks of infections, diseases, SARS and Influenza A (H5N1) and any related or mutated forms of infectious diseases, civil commotions, economic sanctions, public disorder, social or political crises, acts of war, acts of terrorism, acts of God, accidents or interruptions or delays in transportation in or affecting any Relevant Jurisdiction; or
- (iv) any local, national, regional or international outbreak or escalation of hostilities (whether or not war is or has been declared) or other state of emergency or calamity or crisis in or affecting any Relevant Jurisdiction; or
- (v) (A) any suspension or limitation on trading in shares or securities generally on the Stock Exchange, the New York Stock Exchange, the American Stock Exchange, the NASDAQ Global Market, the NASDAQ Global Select Market, the Tokyo Stock Exchange, the London Stock Exchange, the Shanghai Stock Exchange, the Shenzhen Stock Exchange or the Singapore Stock Exchange or (B) a general moratorium on commercial banking activities in New York, London, Tokyo, Hong Kong, China, the BVI or the Cayman Islands declared by the relevant authorities, or a disruption in commercial banking activities or foreign exchange trading or securities settlement or clearance services in or affecting any Relevant Jurisdiction; or
- (vi) any change or development involving a prospective change in taxation or exchange controls, currency exchange rates or foreign investment regulations in any Relevant Jurisdiction adversely affecting an investment in the Shares; or
- (vii) the imposition of economic sanctions, in whatever form, directly or indirectly, by, or for, any Relevant Jurisdiction; or
- (viii) any litigation, legal action or claim being instituted against any member of the Group; or
- (ix) the commencement by any governmental, law enforcement agency, regulatory or political body or organisation of any action against any Director or any member of the Group or an announcement by any governmental, law enforcement agency, regulatory or political body or organisation that it intends to take any such action; or
- (x) any Director being charged with an indictable offence or prohibited by operation of law or otherwise disqualified from taking part in the management of a company; or
- (xi) the chairman or chief executive officer of the Company vacating his position that leads to the circumstances where the operations of the Group will be materially and is likely, in the sole and absolute discretion of the Joint Lead Managers (acting reasonably for themselves and on behalf of the Public Offer Underwriters), be adversely affected; or

UNDERWRITING

- (xii) an order or petition for the winding up of any member of the Group or any composition or arrangement made by any member of the Group with its creditors or a scheme of arrangement entered into by any member of the Group or any resolution for the winding-up of any member of the Group or the appointment of a provisional liquidator, receiver or manager over all or substantive part of the assets or undertaking of any member of the Group or anything analogous thereto occurring in respect of any member of the Group; or

- (xiii) non-compliance of this prospectus (or any other documents used in connection with the contemplated subscription and sale of the Shares) or any aspect of the Share Offer with the GEM Listing Rules, the Articles of Association, the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Companies Law, the SFO or any other applicable laws by any of the warrantors under the Public Offer Underwriting Agreement; or

- (xiv) a valid demand by any creditor for repayment or payment of any indebtedness of the Company or any member of the Group or in respect of which the Company or any member of the Group is liable prior to its stated maturity; or

- (xv) any change or development involving a prospective change, or a materialisation of, any of the risk factors set out in the section headed “Risk factors” in this prospectus, which in each case in the reasonable opinion of the Joint Lead Managers (for themselves and on behalf of the Public Offer Underwriters):
 - (1) is or will or could be expected to have a material adverse effect on the general affairs, management, business, financial, trading or other condition or prospects of the Company or the Group or any members of the Group taken as a whole or on any present or prospective shareholder in his, her or its capacity as such; or
 - (2) has or will have or could be expected to have a material 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
 - (3) makes it impracticable, inadvisable or inexpedient for the Share Offer to proceed as a whole or to market the Share Offer or shall otherwise result in an interruption to or delay thereof; or
 - (4) has or will 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.

UNDERWRITING

UNDERTAKINGS PURSUANT TO THE PUBLIC OFFER UNDERWRITING AGREEMENT

Undertaking by the Company

We have undertaken to each of the Joint Lead Managers, the Joint Bookrunners, the Sole Sponsor, the Co-Manager and the Public Offer Underwriters that, except pursuant to the Share Offer, the Capitalisation Issue and the options that may be granted under the Share Option Scheme, we will not, and will procure our subsidiaries will not, without the prior written consent of the Joint Lead Managers (for themselves and on behalf of the Public Offer Underwriters) (such consent not to be unreasonably withheld or delayed) and unless in compliance with the requirements of the GEM Listing Rules, at any time from the date of the Public Offer Underwriting Agreement and ending on the date which is twelve months after the Listing Date (the **“First Twelve-Month Period”**):

- (a) offer, accept subscription for, pledge, charge, allot, issue, sell, lend, mortgage, assign, contract to allot, issue or 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 or subscribe for, make any short sale, lend or otherwise transfer or dispose of, either directly or indirectly, conditionally or unconditionally, or repurchase, any Shares or other securities of the Company or any shares or other securities of other member of the Group or any interest therein (including but not limited to any securities convertible into or exercisable or exchangeable for or that represent the right to receive any such share capital or securities or any interest therein); or
- (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of such share capital or securities or any interest therein; or
- (c) enter into any transaction with the same economic effect as any of the above transactions; or
- (d) offer to or agree to do any of the foregoing or announce any intention to do so, in each case, whether any of the foregoing transactions is to be settled by delivery of share capital or such other securities, in cash or otherwise; and
- (e) in the event of the Company doing any of the foregoing by virtue of the aforesaid exceptions or during the period of twelve months immediately following the First Twelve-month Period (the **“Second Twelve-Month Period”**), the Company will take all reasonable steps to ensure that any such act will not create a disorderly or false market for the Shares or other securities of the Company.

UNDERWRITING

Undertaking by our Controlling Shareholders

Each of our Controlling Shareholders, pursuant to the Public Offer Underwriting Agreement, has jointly and severally agreed with and undertaken to the Joint Lead Managers, the Joint Bookrunners, the Sole Sponsor, the Co-Manager and the Public Offer Underwriters that, except pursuant to the Share Offer and the Capitalisation Issue, he/it will not, and will procure that his/its relevant registered holder(s) and associates will not, without the prior written consent of the Joint Lead Managers (for themselves and on behalf of the Joint Bookrunners, the Sole Sponsor and the Public Offer Underwriters) (such consent not to be unreasonably withheld or delayed) and unless in compliance with the GEM Listing Rules,

- (a) at any time during the First Twelve-Month Period:
 - (i) 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 or subscribe for, lend, make any short sale 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 in respect of which he/it is shown in this prospectus to be the beneficial owner (directly or indirectly), share or debt capital or other securities of the Company or any interest therein (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 Shares or any interest therein) whether now owned or hereinafter acquired, directly or indirectly by any of our Controlling Shareholders (including holding as a custodian) or with respect to which any of our Controlling Shareholders has beneficial interest; or
 - (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any such shares, capital or other securities or any interest therein; or
 - (iii) enter into any transaction with the same economic effect as any transaction described in (i) or (ii) above; or
 - (iv) offer or agree or contract to, or publicly announce any intention to enter into, any transaction described in paragraph (i) or (ii) or (iii) above, whether any such transaction described in paragraph (i) or (ii) or (iii) above is to be settled by delivery of Shares or such other securities, in cash or otherwise;
- (b) at any time during the following 12 months immediately after the expiry of the First Twelve-Month Period (the “**Second Twelve-Month Period**”):
 - (i) enter into any of the foregoing transactions in paragraphs (a)(i) or (a)(ii) or (a)(iii) above if, immediately following such transaction, it will cease to be a Controlling Shareholder of the Company or would together with the other Controlling Shareholders cease to be Controlling Shareholders of the Company; and

UNDERWRITING

- (ii) until the expiry of the Second Twelve-Month Period: in the event that any of our Controlling Shareholders enters or agrees or contracts to or publicly announce an intention to enter into the foregoing transactions, it will take all reasonable steps to ensure that it will not create a disorderly or false market in the Shares or other securities of the Company.
- (c) Each of the Controlling Shareholders has undertaken to the Company that, within the First Twelve-Month Period and the Second Twelve-Month Period, he/it will:
 - (i) when he/it pledges or charges any Shares beneficially owned by him/it in favour of an authorised institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) pursuant to Rule 13.18 of the GEM Listing Rules, immediately inform the Company of such pledge or charge together with the number of Shares so pledged or charged; and
 - (ii) when he/it receives indications, either verbal or written, from the pledgee or chargee that any of the pledged or charged Shares will be disposed of, immediately inform the Company of such indications.
- (d) The Company undertakes to and covenants with the Joint Lead Managers, the Co-Manager and the Public Offer Underwriters that the Company shall forthwith inform the Joint Lead Managers and the Stock Exchange in writing immediately after it has been informed of the matters referred to in paragraph (c) above, and the Company shall disclose such matters by way of an announcement and shall comply with all requirements of the Stock Exchange.

UNDERTAKINGS PURSUANT TO THE GEM LISTING RULES

Undertaking by the Company

Pursuant to Rule 17.29 of the GEM Listing Rules, we have undertaken to the Stock Exchange that no further Shares or securities convertible into our equity securities (whether or not of a class already listed) may be issued by us or form the subject of any agreement to such an issue by us within six months from the Listing Date (whether or not such issue of Shares or our securities will be completed within six months from the commencement of dealing), except in certain circumstances prescribed by Rule 17.29 of the GEM Listing Rules.

Undertaking by our Controlling Shareholders

Pursuant to Rule 13.16A(1) of the GEM Listing Rules, each of the Controlling Shareholders has undertaken to the Stock Exchange and the Company that save as permitted under the GEM Listing

UNDERWRITING

Rules and pursuant to the Share Offer he/it will not and will procure that the relevant registered holder(s) will not:

- (a) in the period commencing on the date by reference to which disclosure of his/its shareholding in the Company is made in this prospectus and ending on the date which is twelve months from the date on which dealings in the Shares commence on the Stock Exchange, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares in respect of which he/it is shown by this prospectus to be the beneficial owner; and
- (b) in the period of twelve months commencing on the date on which the period referred to in the paragraph (a) above expires, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares referred to in the paragraph (a) above if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, he/it would cease to be a controlling shareholder (as defined in the GEM Listing Rules) of the Company.

Pursuant to Rule 13.19 of the GEM Listing Rules, each of our Controlling Shareholders has undertaken to the Stock Exchange and the Company to comply with the following requirements:

- (a) in the event that he/it pledges or charges any direct or indirect interest in the Shares in respect of which he/it is shown by this prospectus to be the beneficial owner in favour of an authorised institution (as defined in the Banking Ordinance, Chapter 155 of the Laws of Hong Kong), as security for a bona fide commercial loan 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 by reference to which disclosure of his/its shareholding in the Company is made in this prospectus and ending on the date which is 24 months from the Listing Date, he/it must inform the Company immediately thereafter, disclosing the details specified in Rules 17.43(1) to (4) of the GEM Listing Rules; and
- (b) having pledged or charged any interest in Shares under sub-paragraph (a) above, he/it must inform the Company immediately in the event that he/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.

The Company will inform the Stock Exchange as soon as we have been informed of such matters and must forthwith publish an announcement giving details of the same in accordance with the requirements of Rule 17.43 of the GEM Listing Rules.

UNDERWRITING

PLACING

In connection with the Placing, it is expected that the Company will enter into the Placing Underwriting Agreement with, *inter alia*, the Placing Underwriters, on terms and conditions that are substantially similar to the Public Offer Underwriting Agreement as described above. Under the Placing Underwriting Agreement, the Placing Underwriters will severally agree to subscribe or procure subscribers for the Placing Shares being offered pursuant to the Placing.

Potential investors should note that if the Placing Underwriting Agreement is terminated, the Share Offer will not proceed.

COMMISSION AND EXPENSES

The Underwriters will receive an underwriting commission of 10.0% on the aggregate Offer Price of all the Offer Shares, out of which any sub-underwriting commission, praecipium and selling concession will be paid.

The aggregate of the underwriting commissions, documentation fee, listing fees, Stock Exchange trading fee and transaction levy, legal and printing and other professional fees and expenses relating to the Share Offer is estimated to amount to approximately HK\$23.0 million in total, based on the Offer Price of HK\$0.32 per Offer Share, being midpoint of the indicative Offer Price range.

UNDERWRITERS' INTERESTS IN THE COMPANY

Save for the obligations under the Underwriting Agreements, as at the Latest Practicable Date, none of the Underwriters was interested, directly or indirectly, in any Shares or securities in any member of our Group or had any right or option (whether legally enforceable or not) to subscribe for, or to nominate persons to subscribe for, any Shares or securities in any member of the Group.

SOLE SPONSOR'S INTEREST IN THE COMPANY

The Sole Sponsor, has declared its independence pursuant to Rule 6A.07 of the GEM Listing Rules. Save for the advisory and documentation fees to be paid to the Sole Sponsor in relation to the Share Offer, its obligations under the Underwriting Agreements and any interests in securities that may be subscribed by it pursuant to the Share Offer, neither the Sole Sponsor nor any of its associates has or may, as a result of the Share Offer, have any interest in any class of securities of the Company or any other company in the Group (including options or rights to subscribe for such securities).

No director or employee of the Sole Sponsor who is involved in providing advice to the Company has or may, as a result of the Share Offer, have any interest in any class of securities of the Company or other company in the Group (including options or rights to subscribe for such securities but, for the avoidance of doubt, excluding interests in 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 the Company or any other company in the Group.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

THE SHARE OFFER

The Share Offer comprises:

- (i) the Public Offer of 18,750,000 Public Offer Shares (subject to re-allocation as mentioned below) in Hong Kong; and
- (ii) the Placing of an aggregate of 168,750,000 Placing Shares being offered by the Company for subscription (subject to re-allocation as mentioned below).

Investors may apply for Offer Shares under the Public Offer or, if qualified to do so, apply for or indicate an interest for Offer Shares under the Placing, but may not do both.

The Offer Shares will represent 25% of the enlarged issued share capital of the Company immediately after completion of the Share Offer and the Capitalisation Issue.

DETERMINING THE OFFER PRICE

The Offer Price is expected to be determined by an agreement between the Company and the Joint Lead Managers (for themselves and on behalf of the Underwriters) on the Price Determination date, which is expected to be on or around Friday, 5 October 2018. Prospective investors should be aware that, if, for any reason, the Offer Price is not agreed between the Joint Lead Managers (for themselves and on behalf of the Underwriters) and us by Friday, 5 October 2018 or such later date as may be agreed by the Joint Lead Managers (for themselves and on behalf of the Underwriters) and us, and in any event no later than Saturday, 6 October 2018, the Share Offer (including the Public Offer) will not proceed and will lapse.

The Offer Price will not be more than HK\$0.34 per Offer Share and is expected to be not less than HK\$0.30 per Offer Share. The Joint Lead Managers (for themselves and on behalf of the Underwriters) may, with the consent of the Company, reduce the indicative Offer Price range to below the above stated in this prospectus at any time prior to the Price Determination Date. If this occurs, notice of reduction of the indicative Offer Price range will be published on the Stock Exchange's website at www.hkexnews.hk and the Company's website at www.dghcl.com.

PRICE PAYABLE ON APPLICATION

You must pay the maximum Offer Price of HK\$0.34 per Offer Share plus a 1.0% brokerage fee, 0.005% Stock Exchange trading fee and 0.0027% SFC transaction levy, subject to refund if the Offer Price as finally determined is less than HK\$0.34 per Offer Share. This means a total of HK\$3,434.26 is payable for every board lot of 10,000 Shares.

ANNOUNCEMENT OF THE BASIS OF ALLOCATIONS

The final Offer Price, the level of indication of interest in the Placing, the level of applications in the Public Offer and the basis of allocation of the Public Offer Shares are expected to be announced on Thursday, 11 October 2018 on the website of the Stock Exchange at www.hkexnews.hk and the Company's website at www.dghcl.com.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

CONDITIONS OF THE SHARE OFFER

Acceptance of all applications for Offer Shares will be conditional on, among other things:

- (i) the Stock Exchange granting approval for the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Capitalisation Issue (including the Shares issuable upon exercise of options which may be granted under the Share Option Scheme) and the Share Offer on GEM and such approval not having been withdrawn; and
- (ii) the obligations of the Underwriters under the Underwriting Agreements becoming and remaining unconditional and not having been terminated in accordance with the terms of the respective agreements,

in each case on or before the dates and times specified in the 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 date which is 30 days after the date of this prospectus.

The consummation of each of the Public Offer and the Placing is conditional upon, among other things, the other offering becoming unconditional and not having been terminated in accordance with its terms.

If the above conditions are not fulfilled or waived prior to the times and dates specified, the Share Offer will lapse and the Stock Exchange will be notified immediately. Notice of the lapse of the Public Offer will be published by the Company on the websites of the Company and the Stock Exchange at www.dghcl.com and www.hkexnews.hk respectively, on the next day following such lapse. In such a situation, all application monies will be returned, without interest, on the terms set out in section headed “How to apply for Public Offer Shares — 13. Refund of application monies”. In the meantime, all application monies will be held in separate bank account(s) with the receiving bank or other bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (as amended).

Share certificates for the Offer Shares are expected to be issued on Thursday, 11 October 2018 and will only become valid certificates of title at 8:00 a.m. on Friday, 12 October 2018 provided that (i) the Share Offer has become unconditional in all respects; and (ii) the right of termination as described in section headed “Underwriting — Public Offer underwriting arrangements — Grounds for termination” has not been exercised at or before that time.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

All necessary arrangements have been made for the Shares to be admitted into CCASS. Subject to the granting of listing of, and permission to deal in, the Shares on the Stock Exchange and our compliance 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 the Stock Exchange or under contingent situation, 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 activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. If you are unsure about the details of CCASS settlement arrangements and how such arrangements will affect your rights and interests, you should seek the advice of your stockbrokers or other professional advisers.

DEALING ARRANGEMENTS

Assuming that the Public Offer becomes unconditional at or before 8:00 a.m. in Hong Kong on Friday, 12 October 2018, it is expected that dealing in the Shares on the Stock Exchange will commence at 9:00 a.m. on Friday, 12 October 2018.

The Shares will be traded in board lots of 10,000 Shares each and the stock code of the Shares will be 8537.

THE PUBLIC OFFER

Number of the Public Offer Shares

The Public Offer is a fully underwritten public offer (subject to satisfaction or waiver of the other conditions provided in the Public Offer Underwriting Agreement and described in the paragraph headed “Conditions of the Share Offer” above) for the subscription in Hong Kong of, initially, 18,750,000 Public Offer Shares at the Offer Price (representing 10% of the total number of the Offer Shares initially available under the Share Offer). Subject to the re-allocation of Offer Shares between the Placing and the Public Offer described below, the Public Offer Shares will represent 2.5% of our enlarged issued share capital immediately after completion of the Capitalisation Issue and the Share Offer, without taking into account any Shares which fall to be allotted and issued pursuant to the exercise of any options which may be granted under the Share Option Scheme.

Allocation

The Public Offer is open for subscription to members of the public in Hong Kong as well as to institutional and professional investors in Hong Kong. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. The allocation of the Public Offer Shares to investors will be based solely on the level of valid applications received under the Public Offer at the sole discretion of the Joint Bookrunners.

Multiple or suspected multiple applications under the Public Offer and any application for more than 18,750,000 Public Offer Shares available for subscription will be rejected. Each applicant under the Public Offer will also be required to give an undertaking and confirmation in the Application Form submitted by him or her that he or she and any person(s) for whose benefit he or she is making the application have not indicated an interest for or taken up and will not indicate an interest for or take up any Placing Shares in the Placing, and such applicant’s application will be rejected if the said undertaking and/or confirmation is breached and/or untrue, as the case may be.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

PLACING

Number of the Placing Shares

The number of the Offer Shares to be initially offered for subscription and/or purchase under the Placing will be 168,750,000 Placing Shares, being New Shares initially offered by the Company for subscription (subject to re-allocation as described above), representing 90% of the Offer Shares available under the Share Offer. The Placing is fully underwritten by the Placing Underwriters.

Allocation

The Placing will include selective marketing of Offer Shares to institutional and professional investors and/or other investors expected to have a sizeable demand for such Offer Shares. 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.

Pursuant to the Placing, the Placing Shares will be conditionally placed on our behalf by the Placing Underwriters or through selling agents appointed by them. The Placing is subject to the Public Offer becoming unconditional.

Allocation of the Placing Shares to investors under the Placing will be determined by the Joint Bookrunners and will be based on a number of factors including the level and timing of demand, total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not the relevant investor is likely to buy further, and/or hold or sell its Placing Shares after the Listing. Such allocation is intended to result in a distribution of the Placing Shares on a basis which would lead to the establishment of an appropriate shareholder base to our benefit and the benefit of the Shareholders as a whole.

The Joint Lead Managers (for themselves and on behalf of the Underwriters), may require any investor who has been offered Offer Shares under the Placing and who has made an application under the Public Offer to provide sufficient information to the Joint Bookrunners so as to allow it to identify the relevant applications under the Public Offer and to ensure that such investor is excluded from any application of Placing Shares under the Placing.

RE-ALLOCATION BETWEEN THE PLACING AND THE PUBLIC OFFER

The allocation of Offer Shares between the Public Offer and the Placing is subject to re-allocation on the following basis:

- (a) In the event that the Placing Shares are fully subscribed or oversubscribed under the Placing:
 - (i) if the Public Offer Shares are undersubscribed, the Joint Bookrunners, at its sole and absolute discretion, may reallocate all or any of the unsubscribed Public Offer Shares from the Public Offer to the Placing;

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

- (ii) if the number of Shares validly applied for under the Public Offer represents 15 times or more but less than 50 times the initial number of the Public Offer Shares, then the number of Shares to be re-allocated to the Public Offer from the Placing will increase so that the total number of Shares available for subscription under the Public Offer will increase to 56,250,000 Shares, representing 30% of the total number of the Offer Shares initially available under the Share Offer;
 - (iii) if the number of Shares validly applied for under the Public Offer represents 50 times or more but less than 100 times the initial number of the Public Offer Shares, then the number of Shares to be re-allocated to the Public Offer from the Placing will increase so that the total number of Shares available for subscription under the Public Offer will increase to 75,000,000 Shares, representing 40% of total number of the Offer Shares initially available under the Share Offer; and
 - (iv) if the number of Shares validly applied for under the Public Offer represents 100 times or more the initial number of the Public Offer Shares, then the number of Shares to be re-allocated to the Public Offer from the Placing will increase so that the total number of Shares available for subscription under the Public Offer will increase to 93,750,000 Shares, representing 50% of the total number of the Offer Shares initially available under the Share Offer.
- (b) In the event that the Placing Shares are undersubscribed under the Placing:
- (i) if the Public Offer Shares are undersubscribed, the Share Offer shall not proceed unless fully underwritten by the Underwriters; and
 - (ii) if the Public Offer Shares are fully subscribed or oversubscribed irrespective of the number of times, then the number of Shares to be re-allocated to the Public Offer from the Placing will increase so that the total number of Shares available for subscription under the Public Offer will increase up to 37,500,000 Shares, representing 20% of the total number of the Offer Shares available under the Share Offer to cover the excess demand.

In the case of paragraph (a)(i) above or where the Placing Shares are undersubscribed, the Offer Price shall be fixed at HK\$0.30 per Offer Share (being the bottom end of the indicative Offer Price range stated in this prospectus).

Details of any re-allocation of Offer Shares between the Public Offer and the Placing will be disclosed in the results announcement of the Share Offer, which is expected to be published on Thursday, 11 October 2018.

PROFESSIONAL TAX ADVICE RECOMMENDED

Potential investors in the Share Offer are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, holding or disposal of, and dealings in our Shares (or exercising rights attached to them). None of the Group, the Sole Sponsor,

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

the Joint Bookrunners, the Joint Lead Managers, the Co- Managers, the Underwriters, any of their respective directors, agents or advisers or any other person or party involved in the Share Offer accepts responsibility for any tax effects on, or liabilities of, any person resulting from the subscription for, purchase, holding or disposal of, dealings in, or the exercise of any rights in relation to, our Shares.

HONG KONG REGISTER OF MEMBERS

Our principal register of members will be maintained by our Principal Share Registrar, Maples Fund Services (Cayman) Limited in the Cayman Islands and our Hong Kong branch register of members will be maintained in Hong Kong by Tricor Investor Services Limited, our Hong Kong Branch Share Registrar.

STAMP DUTY

Dealings in our Shares registered in our Hong Kong branch register of members will be subject to Hong Kong stamp duty. The current ad valorem rate of Hong Kong stamp duty is 0.1% on the higher of the consideration for or the market value of the Shares and it is charged on the purchaser on every purchase and on the seller on every sale of the Shares. Therefore a total stamp duty of 0.2% is currently payable on a typical sale and purchase transaction involving the Shares.

HOW TO APPLY FOR 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 the Placing Shares.

To apply for the Public Offer Shares, you may:

- (a) use a **WHITE** or **YELLOW** Application Form;
- (b) apply online via the **HK eIPO White Form** Service at www.hkeipo.hk; or
- (c) electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

Our Company, the Joint Bookrunners, the **HK eIPO White Form** Service Provider and their agents and nominees may reject or accept any application in full or in part for any reason at their discretion.

2. WHO CAN APPLY FOR THE PUBLIC OFFER SHARES

You can apply for the Public Offer Shares on a **WHITE** or **YELLOW** Application Form if you (or the 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); and
- (d) are not a legal or natural person of the PRC.

If you apply online through the **HK eIPO White Form** Service, in addition to the above, you must also: (i) have a valid Hong Kong identity card number and (ii) provide a valid e-mail address and a contact telephone number.

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the Application Form must be signed by a duly authorised officer, who must state his 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, the Joint Bookrunners, the Joint Lead Managers or their respective agents and nominees may accept or reject it at their discretion, and on any conditions they think fit, including evidence of the attorney's authority.

HOW TO APPLY FOR PUBLIC OFFER SHARES

The number of joint applicants may not exceed four and they may not apply by means of **HK eIPO White Form** Service for the Public Offer Shares.

Unless permitted by the GEM Listing Rules, you cannot apply for any Public Offer Shares if you:

- are an existing beneficial owner of Shares and/or any of our subsidiaries;
- are a Director or chief executive officer of our Company and/or any of our subsidiaries;
- are a core connected person of our Company or will become a core connected person of our Company immediately upon completion of the Share Offer;
- are a close associate of any of the above; and
- 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 Public Offer Shares to be issued in your own name, use a **WHITE** Application Form or apply online through www.hkeipo.hk.

For 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 prospectus during normal business hours from 9:00 a.m. on Saturday, 29 September 2018 until 12:00 noon on Friday, 5 October 2018 from:

- (a) the offices of the Joint Bookrunners and Joint Lead Managers:

**Joint Bookrunners and
Joint Lead Managers**

South China Securities Limited
28/F, Bank of China Tower
No. 1 Garden Road
Central
Hong Kong

Ping An Securities Limited
18/F, CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

HOW TO APPLY FOR PUBLIC OFFER SHARES

(b) the offices of the Co-Manager:

Co-Manager: **CLC Securities Limited**
13/F, Nan Fung Tower
88 Connaught Road Central
Central
Hong Kong

(c) or any of the following branches of Standard Chartered Bank (Hong Kong) Limited, the receiving bank for the Public Offer:

District	Branch name	Address
Hong Kong Island	Aberdeen Branch	Shop 4A, G/F and Shop 1, 1/F, Aberdeen Centre Site 5, No. 6-12 Nam Ning Street, Aberdeen
Kowloon	San Po Kong Branch	Shop A, G/F, Perfect Industrial Building, 31 Tai Yau Street, San Po Kong
New Territories	Fotan Branch	No. 3, 1/F, Shatin Galleria, 18-24 Shan Mei Street, Fo Tan, Shatin

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Saturday, 29 September 2018 until 12:00 noon on Friday, 5 October 2018 from:

- (i) the Depository Counter of HKSCC at 1/F., One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong; or
- (ii) your stockbroker.

Time for lodging Application Forms

Your completed **WHITE** or **YELLOW** Application Form, together with a cheque or a banker's cashier order attached and marked payable to "HORSFORD NOMINEES LIMITED—DOMINATE GROUP PUBLIC OFFER" for the payment, should be deposited in the special collection boxes provided at any of the designated branches of the receiving bank listed above, at the following times:

Saturday, 29 September 2018 — 9:00 a.m. to 1:00 p.m.
Tuesday, 2 October 2018 — 9:00 a.m. to 5:00 p.m.
Wednesday, 3 October 2018 — 9:00 a.m. to 5:00 p.m.
Thursday, 4 October 2018 — 9:00 a.m. to 5:00 p.m.
Friday, 5 October 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 Friday, 5 October 2018, the last application day or such later time as described in the paragraph headed "10. Effect of bad weather on the opening of the application lists" 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 PUBLIC OFFER SHARES

By submitting an Application Form or applying through the **HK eIPO White Form** Service, among other things, you:

- undertake to execute all relevant documents and instruct and authorise our Company and/or the Joint Bookrunners (or its agents or nominees), as agents of our Company, to execute any documents for you and to do on your behalf all things necessary to register any Public Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;
- agree to comply with the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Articles of Association;
- 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;
- 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;
- confirm that you are aware of the restrictions on the Share Offer in this prospectus;
- agree that none of our Company, the Joint Bookrunners, the Joint Lead Managers, the Co-Manager, the Underwriters, their respective directors, officers, employees, partners, agents, advisers or 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);
- undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the Placing nor participated in the Placing;
- agree to disclose to our Company, the Hong Kong Branch Share Registrar, receiving bank, the Joint Lead Managers, the Joint Bookrunners, the Co-Manager, the Underwriters and/or their respective advisers and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;
- 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 Joint Lead Managers, the Joint Bookrunners, the Co-Manager and the Underwriters nor any of their respective officers or advisers will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus and the Application Form;

HOW TO APPLY FOR PUBLIC OFFER SHARES

- agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- agree that your application will be governed by the laws of Hong Kong;
- 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;
- warrant that the information you have provided is true and accurate;
- agree to accept the Public Offer Shares applied for, or any lesser number allocated to you under the application;
- authorise our Company to place your name(s) or the name of the HKSCC Nominees, on our Company's register of members as the holder(s) of any Public Offer Shares allocated to you, and our Company and/or its agents to send any share certificate(s) and/or any e-Auto Refund payment instructions and/or 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;
- 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;
- understand that our Company, our Directors and the Joint Bookrunners and their respective agents and nominees 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;
- (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the **HK eIPO White Form** Service by you or by any one as your agent or by any other person; and
- (if you are making the application as an agent for the benefit of another person) warrant that (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC; and (ii) you have due authority to sign the Application Form or give **electronic application instructions** on behalf of that other person as their agent.

Additional Instructions for **YELLOW** Application Form

You may refer to the **YELLOW** Application Form for details.

HOW TO APPLY FOR PUBLIC OFFER SHARES

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 monies 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 (852) 2979 7888 or through the CCASS Internet System at <https://ip.ccass.com> (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you go to:

Hong Kong Securities Clearing Company Limited

Customer Service Center,
1/F., One & Two Exchange Square,
8 Connaught Place, Central,
Hong Kong

and complete an input request form.

You can also collect a prospectus from this address.

If you are **not a CCASS Investor Participant**, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the 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 Lead Managers and the Hong Kong Share Registrar.

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;

HOW TO APPLY FOR PUBLIC OFFER SHARES

(ii) HKSCC Nominees will do the following things on your behalf:

- 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;
- agree to accept the Public Offer Shares applied for or any lesser number allocated;
- undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any Offer Shares under the Placing;
- (if the **electronic application instructions** are given for your benefit) declare that only one set of **electronic application instructions** has been given for your benefit;
- (if you are an agent for another person) declare that you have only given one set of **electronic application instructions** for the other person's benefit and are duly authorised to give those instructions as their agent;
- confirm that you understand that our Company, our Directors and the Joint Bookrunners and their respective agents and nominees 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 if you make a false declaration;
- authorise our Company to place HKSCC Nominees' name on our Company's register of members as the holder of the Public Offer Shares allocated to you and to send share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;
- confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;
- confirm that you have received and/or read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made, save as set out in any supplement to this prospectus;
- agree that none of our Company, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Co-Manager, the Underwriters, their respective directors, officers, employees, partners, agents, advisers or 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);

HOW TO APPLY FOR PUBLIC OFFER SHARES

- agree to disclose your personal data to our Company, our Hong Kong Branch Share Registrar, receiving bank, the Joint Bookrunners, the Joint Lead Managers, the Co-Manager, the Underwriters and/or its respective advisers and agents;
- agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;
- agree that any application made by HKSCC Nominees on your behalf is irrevocable before the fifth day after the time of the opening of the application lists (excluding any day which is a Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us and to become binding when you give the instructions and such collateral contract to be in consideration of our Company agreeing that it will not offer any 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;
- 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 Public Offer results;
- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for giving **electronic application instructions** to apply for the Public Offer Shares;
- agree with our Company, for itself and for the benefit of each Shareholder (and so that our Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of our Shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Articles of Association; and
- agree that your application, any acceptance of it and the resulting contract will be governed by the Laws of Hong Kong.

HOW TO APPLY FOR PUBLIC OFFER SHARES

Effect of giving electronic application instructions to HKSCC via CCASS

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to our Company or any other person in respect of the things mentioned below:

- (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 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 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.

Time for inputting electronic application instructions⁽¹⁾

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

- Saturday, 29 September 2018 — 9:00 a.m. to 1:00 p.m.⁽¹⁾**
- Tuesday, 2 October 2018 — 8:00 a.m. to 8:30 p.m.⁽¹⁾**
- Wednesday, 3 October 2018 — 8:00 a.m. to 8:30 p.m.⁽¹⁾**
- Thursday, 4 October 2018 — 8:00 a.m. to 8:30 p.m.⁽¹⁾**
- Friday, 5 October 2018 — 8:00 a.m.⁽¹⁾ to 12:00 noon⁽¹⁾**

HOW TO APPLY FOR PUBLIC OFFER SHARES

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Saturday, 29 September 2018 until 12:00 noon on Friday, 5 October 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 Friday, 5 October 2018, the last application day or such later time as described in the paragraph headed “10. Effect of bad weather on the opening of the application lists” below.

Note:

- (1) The times in this sub-section are subject to change as HKSCC may determine from time to time with prior notification to CCASS Custodian Participants and/or CCASS Investor Participants.

No multiple applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of 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 shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

Personal data

The section of the Application Form headed “Personal Data” applies to any personal data held by our Company, the Hong Kong Branch Share Registrar, the receiving banker, the Joint Bookrunners, the Joint Lead Managers, the Co-Manager, the Underwriters and any of their respective advisers and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

6. APPLYING THROUGH HK eIPO WHITE FORM SERVICE

General

Individuals who meet the criteria in the paragraph headed “2. Who can apply for the Public Offer Shares” in this section, may apply through the **HK eIPO White Form** Service for the Offer Shares to be allotted and registered in their own names through the designated website at www.hkeipo.hk.

HOW TO APPLY FOR PUBLIC OFFER SHARES

Detailed instructions for application through the **HK eIPO White Form** Service are on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to our Company. If you apply through the designated website, you authorise the **HK eIPO White Form** Service to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **HK eIPO White Form** Service.

Time for submitting applications under the HK eIPO White Form

You may submit your application to the **HK eIPO White Form** Service at www.hkeipo.hk (24 hours daily, except on the last application day) from 9:00 a.m. on Saturday, 29 September 2018 until 11:30 a.m. on Friday, 5 October 2018 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Friday, 5 October 2018 or such later time under the paragraph headed “10. Effect of bad weather on the opening of the application lists” in this section.

No multiple applications

If you apply by means of **HK eIPO White Form**, once you complete payment in respect of any **electronic application instruction** given by you or for your benefit through the **HK eIPO White Form** Service to make an application for Public Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an electronic application instruction under **HK eIPO White Form** more than once and obtaining different payment reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **HK eIPO White Form** Service or by any other means, all of your applications are liable to be rejected.

Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each applicant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

7. 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. Similarly, the application for Public Offer Shares through the **HK eIPO White Form** Service is also only a facility provided by the **HK eIPO White Form** Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in

HOW TO APPLY FOR PUBLIC OFFER SHARES

making your electronic applications. Our Company, our Directors, the Joint Bookrunners, the Joint Lead Managers, the Sole Sponsor, the Co-Manager and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through the **HK eIPO White Form Service** 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 CCASS Phone System/CCASS Internet System for submission of **electronic application instructions**, they should either (i) submit a **WHITE** or **YELLOW** Application Form; or (ii) go to HKSCC's Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon on Friday, 5 October 2018.

8. 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:

- an account number; or
- some other identification code,

for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or through **HK eIPO White Form Service**, is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and:

- (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 for your benefit.

"Unlisted company" means a company with no equity securities listed on the Stock Exchange. "Statutory control" means you:

- control the composition of the board of directors of our company;
- control more than half of the voting power of our company; or
- hold more than half of the issued share capital of our company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

HOW TO APPLY FOR PUBLIC OFFER SHARES

9. HOW MUCH ARE THE PUBLIC OFFER SHARES

The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for the Public Offer Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and Stock Exchange trading fee in full upon application for Shares under the terms set out in the Application Forms.

You may submit an application using a **WHITE** or **YELLOW** Application Form or through the **HK eIPO White Form** Service 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 or as otherwise specified on the designated website at www.hkeipo.hk.

If your application is successful, brokerage will be paid to the Exchange Participants, and the SFC transaction levy and Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

For further details on the Offer Price, see the section headed “Structure and conditions of the Share Offer — Price payable on application” in this prospectus.

10. EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- (a) 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 Friday, 5 October 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 Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Friday, 5 October 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”, an announcement will be made in such event.

HOW TO APPLY FOR PUBLIC OFFER SHARES

11. PUBLICATION OF RESULTS

Our Company expects to announce the final Offer Price, the level of the indication of interest in the Placing, the level of applications in the Public Offer and the basis of allocation of the Public Offer Shares on Thursday, 11 October 2018 on our Company's website at www.dghcl.com and the website of the Stock Exchange at www.hkexnews.hk.

The results of allocations and the Hong Kong Identity Card/passport/Hong Kong business registration numbers of successful applicants under the Public Offer will be available at the times and date and in the manner specified below:

- (a) in the announcement to be posted on our Company's website at www.dghcl.com and the Stock Exchange's website at www.hkexnews.hk by no later than 8:00 a.m. on Thursday, 11 October 2018;
- (b) from the designated results of allocations website at www.tricor.com.hk/ipo/result with a "search by ID/Business Registration Number" function on a 24-hour basis from 8:00 a.m. on Thursday, 11 October 2018 to 12:00 midnight on Wednesday, 17 October 2018;
- (c) by telephone enquiry line by calling (852) 3691 8488 between 9:00 a.m. and 6:00 p.m. from Thursday, 11 October 2018 to Tuesday, 16 October 2018 on a Business Day; and
- (d) in the special allocation results booklets which will be available for inspection during opening hours from Thursday, 11 October 2018 to Monday, 15 October 2018 at all the designated receiving bank branches.

If our Company accepts your offer to purchase (in whole or in part), which we 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.

HOW TO APPLY FOR PUBLIC OFFER SHARES

12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED PUBLIC OFFER SHARES

You should note the following situations in which the Public Offer Shares will not be allotted to you:

(a) **If your application is revoked:**

By completing and submitting an Application Form or giving **electronic application instructions** to HKSCC or to **HK eIPO White Form Service**, 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 they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or the results of the ballot respectively.

(b) **If our Company or our agents exercise their discretion to reject your application:**

Our Company, the Joint Bookrunners, the **HK eIPO White Form Service Provider** and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

(c) **If the allotment of the Public Offer Shares is void:**

The allotment of the Public Offer Shares will be void if the Stock Exchange does not grant permission to list the Shares either:

- (i) within three weeks from the closing date of the application lists; or

HOW TO APPLY FOR PUBLIC OFFER SHARES

- (ii) within a longer period of up to six weeks if the Stock Exchange notifies our Company of that longer period within three weeks of the closing date of the application lists.
- (d) **If:**
- (i) you make multiple applications or suspected multiple applications;
 - (ii) 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;
 - (iii) your Application Form is not completed in accordance with the stated instructions;
 - (iv) your electronic application instructions through the **HK eIPO White Form** are not completed in accordance with the instructions, terms and conditions on the designated website;
 - (v) your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonoured upon its first presentation;
 - (vi) the Underwriting Agreements do not become unconditional or are terminated;
 - (vii) our Company or the Joint Bookrunners believe that by accepting your application, it would violate applicable securities or other laws, rules or regulations; or
 - (viii) your application is for more than 100% of the Public Offer Shares initially offered under the Public Offer.

13. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only or if the Offer Price as finally determined is less than the maximum Offer Price of HK\$0.34 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 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 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 Thursday, 11 October 2018.

HOW TO APPLY FOR PUBLIC OFFER SHARES

14. 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 certificates will be deposited into CCASS as described below); and
- (b) refund cheque(s) crossed “Account Payee Only” in favour of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the 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 Stock Exchange trading fee but without interest). Part of the Hong Kong identity card number/passport number, provided by you or the first-named applicant (if you are joint applicants), may be printed on your refund cheque, if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund cheque(s).

Subject to arrangement on despatch/collection of share certificates and refund monies as mentioned below, any refund cheques and share certificates are expected to be posted on or before Thursday, 11 October 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 Friday, 12 October 2018 provided that the Share Offer has become unconditional and the right of termination described in the section headed “Underwriting — Public Offer underwriting arrangements — Grounds for termination” in this prospectus has not been exercised. Investors who trade Shares prior to the receipt of Share certificates or the Share certificates becoming valid do so at their own risk.

HOW TO APPLY FOR PUBLIC OFFER SHARES

Personal collection

(a) *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) in person from our Company's Hong Kong Branch Share Registrar at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Thursday, 11 October 2018 or such other date as notified by us.

If you are an individual who is eligible for personal collection, you must not authorise any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your authorised representative must bear a letter of authorisation from your corporation stamped with your corporation's chop. Both individuals and authorised representatives must produce, at the time of collection, evidence of identity acceptable to the Hong Kong Branch Share Registrar.

If you do not collect your refund cheque(s) and/or share certificate(s) personally within the time specified for collection, they will be dispatched 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) will be sent to the address on the relevant Application Form on Thursday, 11 October 2018, by ordinary post and at your own risk.

(b) *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 for collection of refund cheque(s). If you have applied for less than 1,000,000 Public Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on Thursday, 11 October 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 Thursday, 11 October 2018, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

(i) *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.

HOW TO APPLY FOR PUBLIC OFFER SHARES

(ii) *If you are applying as a CCASS investor participant*

We will publish the results of CCASS Investor Participants' applications together with the results of the Public Offer in the manner described in paragraph headed "11. Publication of results" above. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Thursday, 11 October 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.

(c) *If you apply via electronic application instructions to HKSCC*

Allocation of the Public Offer Shares

For the purposes of allocating the 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

- If your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Thursday, 11 October 2018 or on any other date determined by HKSCC or HKSCC Nominees.
- Our Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, our Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Public Offer Shares in the manner specified in "— 11. Publication of results" above on Thursday, 11 October 2018. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Thursday, 11 October 2018 or such other date as determined by HKSCC or HKSCC Nominees.
- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.

HOW TO APPLY FOR PUBLIC OFFER SHARES

- 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 Thursday, 11 October 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.
- 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 Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Thursday, 11 October 2018.

(d) *If you apply through the HK eIPO White Form Service*

If you apply for 1,000,000 Public Offer Shares or more and your application is wholly or partially successful, you may collect your Share certificate(s) from the Hong Kong Branch Share Registrar at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Thursday, 11 October 2018 or such other date as notified by our Company on the website of the Stock Exchange at www.hkexnews.hk or the website of the Company at www.dghcl.com as the date of despatch/collection of Share certificates/e-Auto Refund payment instructions/refund cheques.

If you do not collect your Share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post at your own risk.

If you apply for less than 1,000,000 Public Offer Shares, your Share certificate(s) (where applicable) will be sent to the address specified in your application instructions on Thursday, 11 October 2018 by ordinary post at your own risk.

If you apply and pay the application monies from a single bank account, any refund monies will be despatched to that bank account in the form of e-Auto Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be despatched to the address as specified in your application instructions in the form of refund cheque(s) by ordinary post at your own risk.

HOW TO APPLY FOR PUBLIC OFFER SHARES

15. ADMISSION OF THE SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares or, under contingent situation, any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the GEM Listing Rules) is required to take place in CCASS on the second Business Day after any trading day.

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

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect their rights and interests.

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

The following is the text of a report set out on pages I-1 to I-55, received from the Company's reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this Document.

Deloitte.

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ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF DOMINATE GROUP HOLDINGS COMPANY LIMITED AND SOUTH CHINA CAPITAL LIMITED

Introduction

We report on the historical financial information of Dominate Group Holdings Company Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages I - 4 to I - 55, which comprises the combined statements of financial position of the Group as at 31 March 2017 and 2018, the statement of financial position of the Company as at 31 March 2018, and the combined statements of profit or loss and other comprehensive income, the combined statements of changes in equity and the combined statements of cash flows of the Group for each of the two years ended 31 March 2018 (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 - 55 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated 29 September 2018 (the "Prospectus") in connection with the initial listing of shares of the Company on 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 of the Company 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 of the Company, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of the Group's financial position as at 31 March 2017 and 31 March 2018, the Company's financial position as at 31 March 2018 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 GEM OF THE STOCK EXCHANGE AND THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE***Adjustments***

The Historical Financial Information is stated after making such adjustments to the Historical Financial Statements as defined on I - 3 as were considered necessary.

Dividends

We refer to Note 13 to the Historical Financial Information which contains information about the dividends declared by the Company's subsidiaries and states that no dividends have been declared by the Company in respect of the Track Record Period.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
29 September 2018

HISTORICAL FINANCIAL INFORMATION OF THE GROUP**Preparation of Historical Financial Information**

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The Historical Financial Information in this report was prepared based on previously issued financial statements of Chong Fai Group Holdings Company Limited ("Chong Fai Holdings"), Chong Fai Jewellery & Gold Company Limited ("Chong Fai Jewellery"), King Jewellery & J Company Limited ("King Jewellery"), W-Rich Company Limited ("W-Rich") and issued consolidated financial statements of Chuk Fung Jewellery Manufactory Limited ("Chuk Fung") and its subsidiary, Zhuohui Jewellery (Shenzhen) Company Limited ("Zhuohui Jewellery"), for each of the two years ended 31 March 2018 (collectively referred to as the "Financial statements") and management accounts of Zhidahang Jewellery (Shenzhen) Company Limited ("Zhidahang Jewellery") for each of the two years ended 31 March 2018 and management accounts of the Company, Glorieux Group Holdings Company Limited ("BVI-2") and Depasser Group Holdings Company Limited ("BVI-3") for the period from their respective dates of incorporation to 31 March 2018 (collectively referred to as the "Management Accounts"). The Financial Statements and the Management Accounts have been prepared in accordance with the accounting policies which conform with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA (collectively referred to the "Historical Financial Statements"). The Financial Statements were audited by us in accordance with HKSA issued by the HKICPA.

The Historical Financial Information is presented in HK dollars ("HK\$") and all values are rounded to the nearest thousand (HK\$'000) except when otherwise indicated.

COMBINED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	NOTES	THE GROUP	
		Year ended 31 March	
		2017	2018
		HK\$'000	HK\$'000
Revenue	6	203,464	173,020
Cost of goods sold		(149,642)	(115,590)
Gross profit		53,822	57,430
Other income	7	77	67
Other gains or losses	8	(5,690)	(475)
Selling and distribution costs		(25,026)	(28,778)
General and administrative expenses		(12,174)	(10,710)
Listing expenses		—	(8,151)
Finance costs	9	(1,128)	(1,371)
Profit before taxation	10	9,881	8,012
Taxation	12	(6,008)	(3,177)
Profit for the year		3,873	4,835
Other comprehensive (expense) income for the year			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of a foreign operation		(107)	418
Other comprehensive (expense) income for the year, net of income tax		(107)	418
Total comprehensive income for the year		3,766	5,253
Profit (loss) for the year attributable to:			
Owners of the Group		4,439	4,630
Non-controlling interests		(566)	205
		3,873	4,835
Total comprehensive income (expense) attributable to:			
Owners of the Group		4,344	5,000
Non-controlling interests		(578)	253
		3,766	5,253

STATEMENTS OF FINANCIAL POSITION

	NOTES	THE GROUP		THE
		At 31 March		COMPANY
		2017	2018	At 31 March
		HK\$'000	HK\$'000	2018
		HK\$'000	HK\$'000	HK\$'000
Non-current assets				
Property, plant and equipment	15	1,033	1,050	—
Deferred tax assets	16	1,407	643	—
Rental deposits		2,378	2,290	—
		<u>4,818</u>	<u>3,983</u>	<u>—</u>
Current assets				
Inventories	17	73,222	73,105	—
Trade receivables, prepayments and deposits	18	23,027	12,582	2,641
Amounts due from related companies	19	23,637	23,215	—
Taxation recoverable		74	587	—
Bank balances and cash	20	<u>19,397</u>	<u>24,526</u>	<u>—</u>
		<u>139,357</u>	<u>134,015</u>	<u>2,641</u>
Current liabilities				
Trade and other payables	21	25,001	23,845	4,267
Amounts due to directors	19	3,503	—	—
Amount due to a related company	19	12,728	11,308	6,525
Taxation payable		5,858	—	—
Bank borrowings	22	29,368	36,117	—
Gold loans	23	<u>12,505</u>	<u>13,263</u>	<u>—</u>
		<u>88,963</u>	<u>84,533</u>	<u>10,792</u>
Net current assets (liabilities)		<u>50,394</u>	<u>49,482</u>	<u>(8,151)</u>
Net assets (liabilities)		<u>55,212</u>	<u>53,465</u>	<u>(8,151)</u>
Capital and reserves				
Share capital	24	20,030	20,030	—
Reserves	24	<u>34,576</u>	<u>32,576</u>	<u>(8,151)</u>
Equity attributable to owners of the Company		54,606	52,606	(8,151)
Non-controlling interests		<u>606</u>	<u>859</u>	<u>—</u>
Total equity (deficit)		<u>55,212</u>	<u>53,465</u>	<u>(8,151)</u>

COMBINED STATEMENTS OF CHANGES IN EQUITY

	Attributable to owners of the Company				Non- controlling interest	Total
	Share capital	Exchange reserve	Retained profits	Sub-total		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000		
At 1 April 2016	20,030	815	29,417	50,262	1,184	51,446
Profit (loss) for the year	—	—	4,439	4,439	(566)	3,873
Exchange differences arising from translation of a foreign operation	—	(95)	—	(95)	(12)	(107)
Total comprehensive (expense) income for the year	—	(95)	4,439	4,344	(578)	3,766
At 31 March 2017	20,030	720	33,856	54,606	606	55,212
Profit for the year	—	—	4,630	4,630	205	4,835
Exchange differences arising from translation of a foreign operation	—	370	—	370	48	418
Total comprehensive income for the year	—	370	4,630	5,000	253	5,253
Dividend declared (note 13)	—	—	(7,000)	(7,000)	—	(7,000)
At 31 March 2018	20,030	1,090	31,486	52,606	859	53,465

COMBINED STATEMENTS OF CASH FLOWS

	THE GROUP	
	Year ended	
	31 March	
	2017	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
Operating activities		
Profit before taxation	9,881	8,012
Adjustments for:		
Allowance (reversal of allowance) for doubtful debts	1,591	(1,591)
Allowance (reversal of allowance) for inventories	2,889	(124)
Depreciation on property, plant and equipment	490	650
Loss on revaluation of gold loans	199	758
Loss on disposal of property, plant and equipments	32	—
Loss on disposal of held-for-trading investments	2	—
Interest expenses	1,128	1,371
Interest income	(3)	(4)
Operating cash flows before movements in working capital	16,209	9,072
(Increase) decrease in inventories	(7,827)	241
(Increase) decrease in trade receivables, prepayments and deposits	(5,981)	14,765
Increase (decrease) in trade and other payables	7,916	(1,866)
Cash generated from operations	10,317	22,212
Hong Kong Profits Tax paid	(1,804)	(8,551)
PRC Enterprise Income Tax paid	(119)	(233)
Net cash generated from operating activities	8,394	13,428
Investing activities		
Purchase of property, plant and equipment	(1,044)	(666)
Advance to related companies	(838)	—
Repayment from related companies	912	422
Interest received	3	4
Net cash used in investing activities	(967)	(240)

	THE GROUP	
	Year ended	
	31 March	
	2017	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
Financing activities		
Proceeds from bank loans	18,418	10,000
Advance from directors	25	—
Repayments to directors	(7,004)	(3,503)
Repayments of bank loans	(3,472)	(3,314)
Repayment to a related company	(1,862)	(1,420)
Interests paid	(1,128)	(1,371)
Issue costs paid	—	(1,574)
Repayment of obligation under finance lease	(23)	—
Dividend paid	—	(7,000)
Net cash generated from (used in) financing activities	<u>4,954</u>	<u>(8,182)</u>
Net increase in cash and cash equivalents	12,381	5,006
Cash and cash equivalents at beginning of the year	7,082	19,397
Effect of foreign exchange rate changes	(66)	60
Cash and cash equivalents at end of the year	<u>19,397</u>	<u>24,463</u>
Represented by:		
Bank balances and cash	19,397	24,526
Bank overdrafts	—	(63)
	<u>19,397</u>	<u>24,463</u>

NOTES TO HISTORICAL FINANCIAL INFORMATION**1. GENERAL**

The Company is a private limited company incorporated in the Cayman Islands on 11 January 2018. The registered office of the Company is PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands, the Cayman Islands and the principal place of business of the Company is at G/F, No. 6-13 Faerle Court, 80 Ko Shan Road, Hunghom, Kowloon, Hong Kong.

The immediate holding company and ultimate holding company of the Company is Mythe Group Holdings Company Limited (“BVI-1”) which was incorporated in British Virgin Islands (“BVI”). Its ultimate controlling party is Mr. Fu Chun Keung (“Mr. Fu”).

The Company is an investment holding company. The principal activity of the Group is engaged in the procurement, marketing and promotion, distribution, retail and wholesale of the jewellery products, and trading of recycled gold products.

The Historical Financial Information is presented in Hong Kong dollars (“HK\$”), which is the same as the functional currency of the Company.

2. GROUP REORGANISATION AND BASIS OF PREPARATION AND 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 and the principle of merger accounting under Accounting Guideline 5 “Merger Accounting for Common Control Combinations” issued by the HKICPA (details are set out below).

In preparation of the initial listing of the Company on GEM of the Stock Exchange (the “Listing”), the companies now comprising the Group underwent the group reorganisation as described below (“Group Reorganisation”).

Pursuant to the Group Reorganisation as set out in the section headed “History, Development and Reorganisation” in the Prospectus, Mr. Fu is the controlling shareholder of the group entities operating the Group’s business including Chong Fai Holdings, Chong Fai Jewellery, King Jewellery and King Jewellery’s subsidiary, Zhidahang Jewellery, W-Rich and Chuk Fung and Chuk Fung’s subsidiary, Zhuohui Jewellery, (together, the “Group Entities”). As part of the Group Reorganisation, investment holding companies including BVI-2 and BVI-3 and the Company were incorporated and became the holding companies of the Group Entities. Since then, the Company became the holding company of the companies now comprising the Group on 12 April 2018. Major steps of the Group Reorganisation include the following:

- (a) On 10 January 2018, BVI-1 was incorporated in BVI and the authorised share capital of BVI-1 was 50,000 shares of one class with no par value, of which one share was allotted and issued as fully paid to Mr. Fu at a subscription price of US\$1 on 22 January 2018.

- (b) On 11 January 2018, the Company was incorporated as an exempted company with limited liability in the Cayman Islands with an authorised share capital of HK\$380,000 divided into 38,000,000 shares of HK\$0.01 each. Upon incorporation, one share was allotted and issued to BVI-1.
- (c) On 6 February 2018, BVI-2 and BVI-3 were incorporated in BVI and the authorised share capital of BVI-2 and BVI-3 were 50,000 shares of one class of no par value.
- (d) On 28 February 2018, the Company subscribed one share of BVI-2 and one share of BVI-3.
- (e) On 12 April 2018, 655 shares of Chong Fai Holdings, 700 shares of Chong Fai Jewellery and 640 shares of Chuk Fung were transferred from the official receiver on behalf of Mr. Lo Fong Sang, who is a bankrupt and was one of the non-controlling shareholders of Chong Fai Holdings, Chong Fai Jewellery and Chuk Fung, to Mr. Fu at a consideration of HK\$450,000, HK\$4,000 and HK\$5,000 respectively.
- (f) On 12 April 2018, Mr. Fu, Ms. Fu Wan Ling, and Ms. Cheung Lai Yuk (“Mrs. Fu”), spouse of Mr. Fu, entered into a share swap deed (the “Share Swap Deed”) with BVI-2, BVI-3 and BVI-1, pursuant to which: (i) Mr. Fu, Ms. Fu Wan Ling and Mrs. Fu, shall transfer 9,376 shares, 398 shares, and 226 shares of Chong Fai Holdings respectively, 20,009,025 shares, 398 shares, and 227 shares of Chong Fai Jewellery, respectively, 9,477 shares, 407 shares, and 116 shares of Chuk Fung, respectively, to BVI-2; and (ii) Mr. Fu shall transfer 1 share of King Jewellery and 1 share of W-Rich, to BVI-3, in consideration of BVI-1 allotting and issuing 9,928 shares, 48 shares and 23 shares of BVI-1 to Mr. Fu, Ms. Fu Wan Ling and Mrs. Fu representing 99.29%, 0.48% and 0.23% of BVI-1, respectively, all credited as fully paid up in the capital of BVI-1. The Share Swap Deed was completed on 12 April 2018 which is the same as the completion date of the Group Reorganisation.

The Group resulting from the Group Reorganisation continued to be controlled by Mr. Fu. Accordingly, the combined statements of profit or loss and other comprehensive income, combined statements of changes in equity and combined statements of cash flows for the Track Record Period have been prepared to include the results 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 their respective dates of incorporation/establishment whichever is a shorter period. The combined statements of financial position of the Group prior to completion of the Group Reorganisation have been prepared to present the assets and liabilities of the companies now comprising the Group as if the current group structure had been in existence at those dates taking into account their respective dates of incorporation/establishment or their respective dates of disposal whichever is applicable.

No statutory financial statements of the Company have been prepared since its date of incorporation as it is incorporated in the jurisdiction where there are no statutory audit requirements.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

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 HKICPA that are effective for the Group's annual accounting periods beginning on 1 April 2017 throughout the Track Record Period.

The Group has not early adopted these new and amendments to HKFRSs and interpretations ("new and revised 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 contract ⁴
HK(IFRIC) - INT 22	Foreign currency transaction and advance consideration ¹
HK(IFRIC) - INT 23	Uncertainty over income tax treatments ²
Amendments to HKFRS 2	Clarifications and measurement of share-based payment transactions ¹
Amendments to HKFRS 4	Applying HKFRS 9 "Financial instruments" with HKFRS 4 "Insurance contracts" ¹
Amendments to HKFRS 9	Prepayment features with negative compensation ²
Amendments to HKFRS 10 and HKAS 28	Sale and contribution of assets between an investor and its associate or joint venture ³
Amendments to HKAS 19	Plan amendment, curtailment or settlement ²
Amendments to HKAS 28	Long-term interests in associates and joint ventures ²
Amendments to HKAS 28	As part of the annual improvements to HKFRSs 2014 - 2016 cycle ¹
Amendments to HKAS 40	Transfers of investment property ¹
Amendments to HKFRSs	Annual improvements to HKFRSs 2015 - 2017 cycle ²

¹ Effective for annual periods beginning on or after 1 January 2018.

² Effective for annual periods beginning on or after 1 January 2019.

³ Effective for annual periods beginning on or after a date to be determined.

⁴ Effective for annual periods beginning on or after 1 January 2021.

HKFRS 9 “Financial instruments”

HKFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirement of HKFRS 9 which is relevant to the Group are:

- with regard to the measurement of financial liabilities designated as at fair value through profit or loss (“FVTPL”), 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 attributable to a financial liability’s credit risk are not subsequently reclassified to profit or loss. Under HKAS 39 “Financial Instruments: Recognition and Measurement”, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is 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 “Financial instruments: Recognition and measurement”. 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.

Based on the Group’s financial instruments and risk management policies as at 31 March 2018, the directors of the Company anticipate the following potential impact on initial application of HKFRS 9:

Classification and measurement

- At 1 April 2018, the Group revoked the designation of measurement of gold loans measured at FVTPL as this financial liability is required to be measured at FVTPL under HKFRS 9;
- Except for financial assets which are subject to expected credit loss model under HKFRS 9, all other financial assets and financial liabilities will continue to be measured on the same bases as are currently measured under HKAS 39.

Impairment

In general, the directors of the Company anticipate that the application of the expected credit loss model of HKFRS 9 will result in earlier provision of credit losses which are not yet incurred in relation to the Group’s financial assets measured at amortised costs and other items that subject to the impairment provisions upon application of HKFRS 9 by the Group.

The Company expects to apply the simplified approach to recognise lifetime expected credit losses for its trade receivables as required or permitted under HKFRS 9. Based on the assessment by the directors of the Company, if the expected credit loss model were to be applied by the Group, the accumulated amount of impairment loss to be recognised by Group would not have material impact when compared to the accumulated amount recognised under HKAS 39 mainly attributable to expected credit losses provision on trade receivables. It is also expected that the adoption of HKFRS 9 in the future may not have other significant impact on the amounts reported in respect of the Group's financial assets and financial liabilities based on the Group's existing business model.

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, the standard 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 Classifications to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The directors of the Company have assessed the impact on application of HKFRS 15 and have identified the following areas that will be affected:

Timing of revenue recognition

Under the Group's customer loyalty program, the customers have an option to use its Very Important Person (“VIP”) membership points to ask for a discount on future purchase, which provides a material right to the customers and gives rise to a separate performance obligation. A portion of the transaction price needs to be allocated to such option, and recognises revenue allocated to the option when the additional goods or services are transferred to the customer.

During the Track Record Period, the Group recognised its obligation to provide discounted goods or services by deferring a portion of the revenue received/receivable at the time of the initial sales transaction. The Group considers that the impact of the application of HKFRS 15 in connection with this customer loyalty program is insignificant.

In addition, the application of HKFRS 15 results in more disclosures in the combined financial statements.

The Group applies the limited retrospective method upon adoption of HKFRS 15 since the financial period began on 1 April 2018.

HKFRS 16 “Leases”

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 “Leases” and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents operating lease payments as operating cash flows. Upon application of HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Group.

Furthermore, extensive disclosures are required by HKFRS 16.

At 31 March 2018, the Group has non-cancellable operating lease commitments of HK\$11,992,000 as disclosed in Note 25. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

In addition, the Group currently considers refundable rental deposits paid of HK\$3,036,000 as at 31 March 2018 as rights and obligations under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost and such adjustments are considered as additional lease payments. Adjustment to refundable rental deposits paid would be included in the carrying amount of right-of-use assets.

Furthermore, the application of new requirements may result in changes in measurement, presentation and disclosures as indicated above. Other than indicated above, the directors of the Company do not expect the adoption of HKFRS 16, as compared to the current accounting policy of the Group, would result in significant impact on the results and the net assets of the Group.

Furthermore, the directors of the Company anticipate that the application of the other new and revised HKFRSs will have no material impact on the Group's financial statements in the future.

4. SIGNIFICANT ACCOUNTING POLICIES

The Historical Financial Information has been prepared in accordance with the accounting policies set out below which conform to HKFRSs issued by the HKICPA. In addition, the Historical Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on GEM of the Stock Exchange and the Hong Kong Companies Ordinance.

The historical financial information has been prepared on the historical cost basis except for gold loans that are measured at fair values at the end of each report period as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange of 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 the 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 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 measurement 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 and 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 price (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 and liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Basis of combination

The Historical Financial Information incorporates the financial statements of the entities comprising the Group. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Combination of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the combined statements of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on combination.

Merger accounting for business combination involving entities under common control

The Historical Financial Information incorporates the financial statements items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are combined using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or 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 the common control combination.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business and net of discounts and returns.

Revenue from the sale of goods including retail sales and wholesale to retailers and jewellery trading is recognised when the goods are delivered and titles have passed.

Service income including income from provision of services to wholesalers is recognised when the services are provided.

Sales of goods that result in VIP membership points for customers, under the Group's customer loyalty program, are accounted for as multiple element revenue transactions and the fair value of the consideration received or receivable is allocated between the goods supplied and the VIP membership points granted. The consideration allocated to the VIP membership points is measured by reference to the fair value of the points for which they could be redeemed. Such consideration is not recognised as revenue at the time of the initial sales transaction - but is deferred and recognised as revenue when the VIP membership points are redeemed and expired and the Group's obligations have been fulfilled.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Property, plant and equipment

Property, plant and equipment are stated in the combined statements of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment less their residual values over their estimated useful lives, using straight line method.

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using weighted average for gold jewellery products and specific identification basis for other jewellery products. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

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 that 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.

Financial instruments

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. 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 or financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

The Group's financial assets are mainly loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial assets, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in active market. Subsequent to initial recognition, loans and receivables (including trade receivables, amounts due from related companies and bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment loss (see accounting policy on impairment of financial assets below).

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

Impairment of financial assets

Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the general credit period, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset 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 entered into 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 the Group after deducting all of its liabilities. Equity instruments issued by group entities are recognised at the proceeds received, net of direct issue costs.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Financial liabilities at FVTPL

The Group has designated the gold loans as financial liabilities at FVTPL as the gold loans form part of a contract containing one or more embedded derivatives with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any interest paid on the financial liabilities.

Financial liabilities at amortised cost

Financial liabilities including trade and other payables, amounts due to directors, amount due to a related company and bank borrowings are subsequently measured at amortised cost, using the effective interest method.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantee contracts issued by the Group are initially measured at their fair values and, if not designated as at FVTPL, are subsequently measured at the higher of:

- the amount of obligation under the contract, as determined in accordance with HKAS 37 “Provisions, contingent liabilities and contingent assets”; and
- the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the revenue recognition policies.

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.

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 is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group’s obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Impairment on tangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible 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 relevant 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 asset individually, 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 to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before taxation as reported in the combined statements of profit or loss and other comprehensive income because it excludes 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 the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the Historical Financial Information and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such 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.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

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.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in term of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, as recognised in profit or loss in the period in which they arise.

For the purposes of presenting the Historical Financial Information, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. HK\$) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the date of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under exchange reserve. Such exchange differences are recognised in the profit or loss in the period in which the foreign operation is disposed of.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Operating lease payments are recognised an expense on a straight-line basis over the lease term.

Retirement benefit costs

Payments to government-managed retirement benefit schemes and the Mandatory Provident Fund Scheme are recognised as an expense when employees have rendered service entitling them to the contributions.

Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries) after deducting any amount already paid.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 4, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and 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 ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are 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 key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities, are described below.

Valuation of trade receivables

The Group makes allowance for doubtful debts based on an assessment on the recoverability of trade receivables. In determining whether an allowance for doubtful debts is required, the Group takes into consideration of the customers' credit history, settlement patterns, subsequent settlements and aging analysis of the trade receivables. Where the expectation of the recoverability of trade receivables is different from the original estimate, such difference will impact the carrying value of trade receivables and allowance for doubtful debts in the period in which such estimate has changed.

At 31 March 2017 and 31 March 2018, the carrying amount of trade receivables is HK\$20,933,000 (net of allowance for doubtful debts of HK\$1,591,000) and HK\$8,132,000 (net of allowance for doubtful debts of nil) respectively.

Estimated impairment of inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value of inventories is based on estimated selling prices less any estimation costs to be incurred to completion and disposal. These estimates are based on the current market condition and the historical experience in selling goods of similar nature. The Group reassesses the estimation at the end of each reporting period. The amount of allowance would change significantly as a result of changes in market conditions.

At 31 March 2017 and 31 March 2018, the carrying amount of inventories is HK\$73,222,000 (net of allowance for inventories of HK\$2,889,000) and HK\$73,105,000 (net of allowance for inventories of HK\$2,765,000), respectively.

Income taxes

As set out in note 12, significant judgment is required in determining the sufficiency of the potential tax liability and other payments imposed on the Group for the tax incident. The Company recognises tax liabilities and other payments imposed based on estimates of whether additional taxes and liabilities will be due. Where the final tax outcome of these matters is different from the amounts that were recorded, such differences will impact the income tax and accrued additional other payments in respect of the tax incident.

6. REVENUE AND SEGMENT INFORMATION

Revenue represents amounts received and receivable for the sales of jewellery products and net of discounts and returns during the Track Record Period.

The executive directors of the Company, being the chief operating decision maker, regularly review revenue analysis by nature of business (including jewellery business and trading of recycled gold products), and by jewellery products (including diamond/karat gold/jade/pearl/platinum jewellery products and gold jewellery products). The executive directors of the Company considered the operating activities of sales of these products as a single operating segment. The operating segment has been identified on the basis of internal management reports prepared in accordance with accounting policies conform to HKFRSs, and is regularly reviewed by the executive directors of the Company. The executive directors of the Company review the overall results, assets and liabilities of the Group as a whole to make decisions about resources allocation. Accordingly, no analysis of this single operating segment is presented.

Entity-wide information

An analysis of the Group's revenue is as follows:

	Year ended 31 March	
	2017	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
(a) Jewellery business:		
Retail operation of jewellery shops	122,133	113,312
Wholesales of jewellery products (Note)	<u>68,907</u>	<u>45,835</u>
	191,040	159,147
Trading of recycled gold products	<u>12,424</u>	<u>13,873</u>
Total	<u><u>203,464</u></u>	<u><u>173,020</u></u>

Note: Wholesales of jewellery products represents revenue from jewellery trading and provision of jewelcrafting services to wholesalers.

	Year ended 31 March	
	2017	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
(b) Jewellery business by product:		
- Diamond/karat gold/jade/pearl/platinum jewellery products	134,667	107,246
- Gold jewellery products	<u>56,373</u>	<u>51,901</u>
	191,040	159,147
Trading of recycled gold product	<u>12,424</u>	<u>13,873</u>
	<u><u>203,464</u></u>	<u><u>173,020</u></u>

The Group is engaged in the retail of its own products through its retail stores in Hong Kong. Wholesales of jewellery products represent sales to jewellery retailers with stores. The Group also purchase recycled gold products from the general public for sale to some gold product collectors and dealers for trading purpose.

No individual customer contributing revenue which accounted for more than 10% of the Group's total revenue during the Track Record Period.

All of the Group's revenue from external customers are generated in Hong Kong. An analysis of the Group's non-current assets other than deferred tax assets by their physical geographical location is as follows:

	Non-current assets	
	At 31 March	
	2017	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong	3,403	3,340
People's Republic of China ("PRC")	<u>8</u>	<u>—</u>
	<u><u>3,411</u></u>	<u><u>3,340</u></u>

7. OTHER INCOME

	Year ended 31 March	
	2017	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
Sundry income	74	63
Bank interest income	3	4
	<u>77</u>	<u>67</u>

8. OTHER GAINS OR LOSSES

	Year ended 31 March	
	2017	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
Additional other payments in respect of tax incident (note 12)	(5,667)	—
Net foreign exchange gain	210	283
Loss on revaluation of gold loans	(199)	(758)
Loss on disposal of property, plant and equipment	(32)	—
Loss on disposal of held-for-trading investments	(2)	—
	<u>(5,690)</u>	<u>(475)</u>

9. FINANCE COSTS

	Year ended 31 March	
	2017	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on bank borrowings	667	739
Interest on gold loans	460	632
Interest on finance lease	1	—
	<u>1,128</u>	<u>1,371</u>

10. PROFIT BEFORE TAXATION

	Year ended 31 March	
	2017	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit before taxation has been arrived at after charging (crediting):		
Depreciation		
- Cost of goods sold	1	9
- Selling and distribution costs	263	456
- General and administrative expenses	226	185
Total depreciation	<u>490</u>	<u>650</u>
Directors' remuneration (note 11)		
- fee	1,708	1,946
- salaries and other benefits	—	—
- retirement benefit scheme contributions	162	162
	<u>1,870</u>	<u>2,108</u>
Other staff's salaries and other benefits	16,084	18,985
Other staff's retirement benefit scheme contributions	1,079	1,197
Total staff costs	<u>19,033</u>	<u>22,290</u>
Allowance (reversal of allowance) for doubtful debts (included in general and administrative expenses (Note a))	1,591	(1,591)
Allowance (reversal of allowance) for inventories (included in cost of goods sold) (Note b)	2,889	(124)
Auditor's remuneration	530	538
Cost of inventories recognised as an expense	146,752	115,705
Minimum lease payments in respect of rented premises	<u>10,496</u>	<u>11,304</u>

Notes:

- a. During the year ended 31 March 2017, the Group had made the allowance for doubtful debts of HK\$1,591,000 as the trade receivables were past due and long-aged which the recoverability of the amount is doubtful. During the year ended 31 March 2018, the reversal of allowance for doubtful debts was due to subsequent collection of the trade receivables previously impaired.
- b. During the year ended 31 March 2018, there was an increase in the net realisable value of certain finished goods due to launch of clearance sales. As a result, a reversal of write-down of HK\$124,000 has been recognised and included in cost of sales.

11. DIRECTORS', CHIEF EXECUTIVES AND EMPLOYEES' EMOLUMENTS

(a) Directors' and the chief's executive's emoluments

The executive directors were appointed on 12 April 2018. Details of the emoluments paid or payable to the directors and Chief Executive of the Company (including emoluments for their services as managerial level employee of group entities prior to becoming the directors of the Company), during the Track Record Period are as follows:

	THE GROUP	
	Year ended 31 March	
	2017	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
Chairman and executive director:		
Mr. Fu (Notes i, ii)		
- director's fee	1,160	1,373
- salaries and other benefits	—	—
- retirement benefit scheme contributions	135	135
	<u>1,295</u>	<u>1,508</u>
Executive directors:		
Ms. Fu Wan Ling (Note ii)		
- director's fee	265	295
- salaries and other benefits	—	—
- retirement benefit scheme contributions	13	14
	<u>278</u>	<u>309</u>
Mrs. Fu (Note ii)		
- director's fee	283	278
- salaries and other benefits	—	—
- retirement benefit scheme contributions	14	13
	<u>297</u>	<u>291</u>
Total	<u><u>1,870</u></u>	<u><u>2,108</u></u>

Notes:

- (i) Mr. Fu was also appointed as the chairman of the Group on 12 April 2018.
- (ii) The executive directors' emoluments shown above were for their services in connection with the management affairs of companies comprising the Group.

(b) **Employees' emoluments**

The five highest paid individuals include 1 and 1 director of the Company for the year ended 31 March 2017 and 31 March 2018, respectively, details of emoluments are included above. The emoluments of the remaining 4 and 4 highest paid employees who are neither a director nor chief executive of the Company are as follows:

	THE GROUP	
	Year ended 31 March	
	2017	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
Employees		
- salaries and allowances	2,248	2,407
- discretionary bonus	875	1,263
- retirement benefit scheme contributions	205	206
	<u>3,328</u>	<u>3,876</u>

The emoluments of each of the employees were less than HK\$1,000,000 during the Track Record Period.

Certain employees of the Group are entitled to bonus payments which are determined based on a percentage of the profit before tax of the relevant subsidiaries during the Track Record Period.

During the Track Record Period, no emoluments were paid by the Group to the directors of the Company or the five highest paid individuals (including directors and employees), as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors waived any emoluments during the Track Record Period.

12. TAXATION

	Year ended 31 March	
	2017	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
The taxation charge comprises:		
Hong Kong Profits Tax		
- Current year	3,335	2,297
- Overprovision in prior years	(121)	(34)
- Additional tax provision in respect of tax incident	3,618	—
	<u>6,832</u>	<u>2,263</u>
PRC Enterprise Income Tax (“EIT”)		
- Current year	208	150
Deferred tax (credit) charge (note 16)	(1,032)	764
	<u>6,008</u>	<u>3,177</u>

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for the Track Record Period.

Under the EIT Law of the PRC and Implementation Regulation of the EIT Law, the tax rate of the subsidiaries in the PRC is 25% for the Track Record Period.

In 2011, the Inland Revenue Department (the “IRD”) initiated a field audit on Chong Fai Holdings, Chong Fai Jewellery, King Jewellery, W-Rich and Chuk Fung (collectively referred to as the “Targeted Companies”) for the years of assessment from 2004/05 onwards.

From March 2011 to March 2017, the IRD issued to the Targeted Companies additional profits tax assessments in an aggregate amount of HK\$10,216,000 relating to the years of assessment 2004/05 to 2010/11, that is, for the financial years ended 31 March 2005 to 2011. The Targeted Companies lodged objections with the IRD against these additional assessments. By notices dated 14 March 2011, 27 April 2012, 24 April 2013, 7 May 2014, 23 April 2015, 13 April 2016 and 20 February 2017, the IRD agreed to hold over unconditionally an amount of HK\$9,700,000 in response to the objections lodged by the Targeted Companies.

After conducting internal assessment and seeking professional tax advice, it was the opinion of the directors of the Targeted Companies that no additional profits tax should be payable as the profit/loss reported by the Targeted Companies to the IRD were commercially justifiable. However, having considered the different opinion of the IRD on such controversial issue and in order to avoid a further protracted exchange of correspondences which may not be the best interest from the commercial perspective, the directors of the Targeted Companies decided to take an alternative means, specifically a compromise settlement approach to resolve the case.

Against this background and following subsequent negotiations with the IRD, a preliminary settlement proposal for the years of assessment 2004/05 to 2015/16 was discussed with the IRD. A compromised settlement was reached with the IRD, with an additional tax payable of HK\$3,618,100 and penalty and holdover interest of HK\$5,667,490 (including interest of approximately HK\$252,000), as a full and final settlement of the whole case for the years of assessment 2004/05 to 2015/16. On 24 January 2018, the IRD issued the revised assessments for the years of assessment 2006/07 to 2015/16 in accordance with compromised settlement. Further on 27 February 2018, the IRD issued letters to the Targeted Companies confirming the total penalty and holdover interest for the whole field audit case at HK\$5,667,490.

As a result, additional tax provision of HK\$3,618,100 and additional other payments of HK\$5,667,490, included as other gains or losses, were recognised for the year ended 31 March 2017, which is the year that the directors of the Company concluded these liabilities probable.

The taxation for the year can be reconciled to the profit before taxation per the combined statements of profit or loss and other comprehensive income as follows:

	Year ended 31 March	
	2017	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit before taxation	<u>9,881</u>	<u>8,012</u>
Tax charge at the applicable income tax rate at 16.5%	1,630	1,322
Tax effect of expenses not deductible for tax purpose	761	2,096
Tax effect of income not taxable for tax purpose	(7)	(262)
Tax effect of tax losses not recognised	54	18
Effect of different tax rate applicable to a subsidiary operating in the other jurisdiction	73	37
Overprovision in prior years	(121)	(34)
Additional tax provision in respect of tax incident	<u>3,618</u>	<u>—</u>
Taxation charge for the year	<u>6,008</u>	<u>3,177</u>

13. DIVIDENDS

During the year ended 31 March 2018, Chong Fai Jewellery, King Jewellery and W-Rich declared and paid dividends in an aggregate amount of HK\$7,000,000 to their shareholders.

The rate of dividend and number of shares ranking for dividend are not presented as such information is not meaningful having regard to the purpose of this report.

No dividend has paid or declared by the Company since its incorporation.

14. EARNINGS PER SHARE

No earnings per share information is presented as its inclusion, for the purpose of this report, is not considered meaningful with regard to the Group Reorganisation and the results for the Track Record Period that is on a combined basis as set out in note 2.

15. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements	Furniture, fixtures and equipment	Motor vehicles	Machinery	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
COST					
At 1 April 2016	2,714	3,899	432	310	7,355
Additions	406	208	430	—	1,044
Disposals	—	(381)	—	—	(381)
Exchange adjustment	—	—	—	(16)	(16)
At 31 March 2017	3,120	3,726	862	294	8,002
Additions	442	224	—	—	666
Disposals	—	(1)	—	—	(1)
Exchange adjustment	—	—	—	32	32
At 31 March 2018	3,562	3,949	862	326	8,699
DEPRECIATION					
At 1 April 2016	2,702	3,518	323	301	6,844
Provided for the year	140	205	144	1	490
Eliminated in disposal	—	(349)	—	—	(349)
Exchange adjustment	—	—	—	(16)	(16)
At 31 March 2017	2,842	3,374	467	286	6,969
Provided for the year	289	249	103	9	650
Eliminated in disposal	—	(1)	—	—	(1)
Exchange adjustment	—	—	—	31	31
At 31 March 2018	3,131	3,622	570	326	7,649
NET BOOK VALUES					
At 31 March 2017	278	352	395	8	1,033
At 31 March 2018	431	327	292	—	1,050

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives as follows:

Leasehold improvements	Over the lease term or 25% per annum whichever is the shorter
Furniture, fixtures and equipment	20%
Motor vehicles	30%
Machinery	20%

16. DEFERRED TAX ASSETS

The movements in deferred tax assets during the Track Record Period are as follows:

	Provision for inventory	Provision for trade receivables	Temporary difference on depreciation	Tax losses	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 April 2016	—	—	375	—	375
Credit (charge) to profit or loss	477	262	(32)	325	1,032
At 31 March 2017	477	262	343	325	1,407
(Charge) credit to profit or loss	(244)	(262)	67	(325)	(764)
At 31 March 2018	<u>233</u>	<u>—</u>	<u>410</u>	<u>—</u>	<u>643</u>

At 31 March 2017 and 31 March 2018, the Group has unused tax losses of HK\$2,302,000 and HK\$439,000, respectively available for offset against future profits. A deferred tax asset of HK\$325,000 and no deferred tax asset have been recognised in respect of HK\$1,972,000 and nil of such losses as at 31 March 2017 and 31 March 2018, respectively. No deferred tax asset has been recognised in relation to remaining tax losses of HK\$330,000 and HK\$439,000 as at 31 March 2017 and 31 March 2018, respectively due to the unpredictability of future profit streams. The losses may be carried forward indefinitely.

17. INVENTORIES

	At 31 March	
	2017	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
Raw material	8,631	7,606
Work in progress	856	441
Finished goods	<u>63,735</u>	<u>65,058</u>
	<u>73,222</u>	<u>73,105</u>

18. TRADE RECEIVABLES, PREPAYMENTS AND DEPOSITS

	THE GOURP		THE
			COMPANY
	At 31 March		At 31
	2017	2018	March
	HK\$'000	HK\$'000	2018
			HK\$'000
Trade receivables	22,524	8,132	—
Less: Allowance for doubtful debts	(1,591)	—	—
	20,933	8,132	—
Rental deposits	324	746	—
Prepayments and other deposits	1,770	1,063	—
Deferred issue costs	—	2,641	2,641
	<u>23,027</u>	<u>12,582</u>	<u>2,641</u>

The following is an analysis of the Group's trade receivables by ages, presented based on the invoice date which approximates the respective revenue recognition dates.

	At 31 March	
	2017	2018
	HK\$'000	HK\$'000
0 - 30 days	3,166	2,493
31 to 60 days	3,390	2,570
61 to 90 days	2,584	1,016
Over 90 days	11,793	2,053
	<u>20,933</u>	<u>8,132</u>

The Group's retail sales to customers are mainly made in cash or through credit card payments. The trade receivables arise from credit card sales are normally settled in one to two business day in arrears. For the remaining customers, the Group allows a credit period up to 90 days. A longer credit period may be granted to large or long-established customers with good payment history.

Before accepting any new customers, the Group will internally assess the potential customer's credit quality and defines credit limits by customers. The management closely monitors the credit quality and follow up actions will be taken if overdue debts are noted. Credit limits attributed to customers and credit term granted to customers are reviewed on a regular basis. Approximately 70% and 69% of the trade receivables as at 31 March 2017 and 31 March 2018, respectively are neither past due nor impaired and they were assessed to be of good credit rating by the Group.

The Group's management takes into consideration of customers' credit history, settlement patterns, subsequent settlements and aging analysis of trade receivables in determining the recoverability of the overdue trade receivables. The directors of the Company considered that the concentration of credit risk is limited due to customer base spreads over a number of counterparties and customers and they are unrelated.

At 31 March 2017 and 31 March 2018, the Group's trade receivables of approximately HK\$6,238,000 and HK\$2,524,000 are past due but not impaired. Such receivables related to a number of customers of which substantial subsequent settlement were made. The Group does not hold any collateral as security over these balances. The aging analysis of these trade receivables is as follows:

	At 31 March	
	2017	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
Overdue by:		
0 - 30 days	3,330	1,174
31 to 60 days	924	440
61 to 90 days	560	92
Over 90 days	1,424	818
	<u>6,238</u>	<u>2,524</u>

Movements in the allowance for doubtful debts of the Group's trade receivables is as follows:

	At 31 March	
	2017	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
At beginning of the year	—	1,591
Impairment loss recognised	1,591	—
Impairment losses reversed	—	(1,591)
At end of the year	<u>1,591</u>	<u>—</u>

At 31 March 2017, included in the allowance for doubtful debts are individually impaired trade receivables with aggregate balance of HK\$1,591,000 which the recoverability of the amount is doubtful.

19. AMOUNTS DUE FROM (TO) RELATED COMPANIES/DIRECTORS

THE GROUP

At the end of each reporting period, these amounts are unsecured, non-trade nature, interest-free and repayable on demand. Amounts due from related companies represents the amounts due from Dia Myth Jewelry (MPY) Co., Limited (“Myth”) and Grand Rise Creation Limited (“Grand”) in which Mr. Fu is a director and shareholder.

Details of amounts due from related companies are as follows:

Name of related company	At	At 31 March	
	1 April	2017	2018
	2016	2017	2018
	HK\$'000	HK\$'000	HK\$'000
Myth	19,565	20,361	19,975
Grand	4,146	3,276	3,240
		23,637	23,215

	At 31 March	
	2017	2018
	HK\$'000	HK\$'000
Maximum amount outstanding during the year ended		
Myth	20,361	21,255
Grand	4,188	3,276

Details of amounts due to directors are as follows:

Name of director	At 31 March	
	2017	2018
	HK\$'000	HK\$'000
Mr. Fu	2,483	—
Mrs. Fu	740	—
Ms. Fu Wan Ling	280	—
	3,503	—

Details of amount due to a related company are as follows:

Name of related company	At 31 March	
	2017	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
Myth	12,728	11,308

Subsequent to the Track Record Period, the above amounts due from/to related companies and directors will be fully settled prior to Listing.

THE COMPANY

The Company's amount due to a related party represents the amount due to Chong Fai Holdings and the amount is non-trade in nature, unsecured, interest-free and repayable on demand.

20. BANK BALANCES AND CASH

Included in bank balances are the following amounts denominated in currencies other than the functional currencies of the relevant group entities:

	At 31 March	
	2017	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
Renminbi ("RMB")	112	461
United States dollar ("USD")	101	49
	<u>213</u>	<u>510</u>

Bank balances carry interest at prevailing market rates of 0.01% and 0.01% per annum as at 31 March 2017 and 31 March 2018.

21. TRADE AND OTHER PAYABLES

	THE GROUP		THE
			COMPANY
	At 31 March		At 31
	2017	2018	March
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade payables	10,896	9,024	—
Accrued additional other payments in respect of tax incident	5,667	—	—
Customer deposits	4,046	5,700	—
Accrued staff cost	1,307	1,433	—
Accrued listing expenses/issue costs	—	4,267	4,267
Other payable and accrued charges (Note)	3,085	3,421	—
	<u>25,001</u>	<u>23,845</u>	<u>4,267</u>

Note: Included in the amount is amount due to a non-controlling interest amounting to HK\$601,000 and HK\$601,000 as at 31 March 2017 and 31 March 2018, respectively.

The following is an aged analysis of the Group's trade payables based on the invoice date at the end of each reporting period:

	At 31 March	
	2017	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 to 30 days	2,611	1,748
31 to 60 days	2,008	1,599
61 to 90 days	2,407	2,269
Over 90 days	<u>3,870</u>	<u>3,408</u>
	<u>10,896</u>	<u>9,024</u>

Included in the Group's trade payables are the following amounts denominated in currency other than the functional currencies of the relevant group entities.

	At 31 March	
	2017	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
US\$	<u>10,424</u>	<u>8,048</u>

22. BANK BORROWINGS

	At 31 March	
	2017	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
Secured bank loans	29,268	36,054
Unsecured bank loans	100	—
Total bank loans	29,368	36,054
Bank overdrafts	—	63
Total bank borrowings	<u>29,368</u>	<u>36,117</u>

The Group's bank loans are payable as follows:

	At 31 March	
	2017	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
Bank loans are repayable (Note)		
Within 1 year	2,812	3,697
After 1 year but within 2 years	2,828	3,869
After 2 years but within 5 years	8,976	12,263
After 5 years	14,752	16,225
Total bank loans	<u>29,368</u>	<u>36,054</u>

Comprising:

Amounts due within one year shown under current liabilities and containing a repayment on demand clause	2,812	3,697
Amounts that are not repayable within one year from the end of the reporting period but containing a repayment on demand clause (shown under current liabilities)	26,556	32,357
Total	<u>29,368</u>	<u>36,054</u>

Note: These amounts are based on the scheduled repayment dates set out in the bank loan agreements.

The Group's banking facility letter contains a clause which give the lender the right at its sole discretion to demand immediate repayment at any time irrespective of whether the Group has complied with the covenants and met the scheduled repayment obligations.

Majority of the above bank loans bear variable-rate ranging from Hong Kong Dollar Prime Rate minus 2.5% to Hong Kong Dollar Prime Rate minus 2% and Hong Kong Dollar Prime Rate minus 2.5% to Hong Kong Dollar Prime Rate minus 2% as at 31 March 2017 and 31 March 2018, respectively.

Bank overdrafts carry interest at market rates which range from 12.7% to 13.0% per annum.

The range of effective interest rates (which are also equal to contracted interest rates) on the Group's bank loans as at 31 March 2017 and 31 March 2018, respectively, is as following:

	<u>At 31 March</u>	
	<u>2017</u>	<u>2018</u>
Effective interest rates	<u>2.5% to 3.08%</u>	<u>2.5% to 3.08%</u>

All bank borrowings are denominated in HK\$.

As at 31 March 2017 and 31 March 2018, certain bank loans are secured by the land and building in Hong Kong held by a related company of the Company and/or guaranteed by the director of the Company and a related company, details of which are set out in Note 29. Subsequent to the Track Record Period, these charges or mortgages and guarantees will be released upon Listing.

23. GOLD LOANS

All of the Group's gold loans are guaranteed by the directors of the Company and a related company, in which the directors of the Company have control. Subsequent to the Track Record Period, these guarantees provided by the related company and the directors of the Company will be released upon Listing.

The amounts represent borrowings from banks and the amounts payable which are pegged with gold prices.

The gold loans carry fixed interest rates of 3.6% and 3.8% per annum as at 31 March 2017 and 31 March 2018 respectively with original maturity of 3 months from date of inception. Included in gold loans are the amounts of HK\$12,505,000 and HK\$13,263,000 shown in the amounts due within one year shown under current liabilities and containing a repayment on demand clause as at 31 March 2017 and 31 March 2018 respectively.

Gold loans were borrowed to reduce the impact of fluctuations in gold prices on gold inventories. Gold loans were designated as financial liabilities at FVTPL.

Included in gold loans are the following amounts denominated in currency other than functional currency of the relevant group entities.

	<u>At 31 March</u>	
	<u>2017</u>	<u>2018</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>
US\$	<u>12,505</u>	<u>13,263</u>

24. SHARE CAPITAL AND RESERVES

THE GROUP

The share capital as at 1 April 2016, 31 March 2017 and 31 March 2018 represented the combined share capital of the following companies attributable to owners of the Company:

Name of companies	At 1 April	At 31 March	
	2016	2017	2018
	HK\$	HK\$	HK\$
the Company	N/A	N/A	0
BVI-2	N/A	N/A	8
BVI-3	N/A	N/A	8
Chong Fai Holdings	10,000	10,000	10,000
Chong Fai Jewellery	20,010,000	20,010,000	20,010,000
King Jewellery	1	1	1
W-Rich	1	1	1
Chuk Fung	10,000	10,000	10,000
	<u>20,030,002</u>	<u>20,030,002</u>	<u>20,030,018</u>
		<i>HK\$'000</i>	<i>HK\$'000</i>
Shown in the combined statements of financial position		<u>20,030</u>	<u>20,030</u>

THE COMPANY

Details of movements of authorised and issued capital of the Company are as follow:

	Number of share	Share capital <i>HK\$</i>
Ordinary share of HK\$0.01 each		
Authorised:		
At incorporation and 31 March 2018	<u>38,000,000</u>	<u>380,000</u>
Issued and fully paid:		
At incorporation and 31 March 2018	<u>1</u>	<u>0</u>
		<i>HK\$'000</i>
Shown in the Company's statement of financial position at 31 March 2018		<u>—</u>

Reserve of the Company

	Accumulated loss
	<i>HK\$'000</i>
At 11 January 2018 (date of incorporation)	—
Loss and total comprehensive expense for the period	<u>(8,151)</u>
At 31 March 2018	<u><u>(8,151)</u></u>

25. OPERATING LEASE COMMITMENTS

The Group had future aggregate minimum lease payables under non-cancellable operating leases in respects of shops and office premises as follows:

	At 31 March	
	2017	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	10,087	9,713
In the second to fifth year inclusive	<u>8,178</u>	<u>2,279</u>
	<u><u>18,265</u></u>	<u><u>11,992</u></u>

Leases are negotiated for terms of one to three years. Certain operating leases require the Group to pay either minimum guaranteed amounts or turnover rent that is based on prescribed rates of corresponding sales, whichever is the higher.

At 31 March 2017 and 31 March 2018, operating lease commitments included commitments of HK\$990,000 and HK\$1,704,000, respectively, to an entity controlled by a director of the Company.

26. CONTINGENT LIABILITIES

At 31 March 2017 and 31 March 2018, the Group has given guarantees jointly with the director of the Company, the non-controlling shareholders and a related company, Myth, of HK\$70,616,000 and HK\$77,623,000 respectively to banks to secure certain general banking facilities granted to a related company and the Group. At 31 March 2017 and 31 March 2018, the aggregate utilised amount of these banking facilities was approximately HK\$46,116,000 and HK\$51,868,000, respectively.

Out of the banking facilities granted, HK\$4,346,000 and HK\$4,346,000 has been designated for use and HK\$4,243,000 and HK\$2,488,000 utilised by the related company and the remaining banking facilities of HK\$66,270,000 and HK\$73,277,000 has been designated for use by the Group as agreed

among the parties as at 31 March 2017 and 31 March 2018, respectively. No financial liability for the financial guarantee contract from the related company has been recognised as the fair value of the financial guarantee contract at the grant date and at the end of the reporting period is not significant.

Save as disclosed above, the Group and the Company had no other material contingent liabilities as at the end of the reporting period.

27. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group liabilities arising from financing activities. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's combined statements of cash flows as cash flows from financing activities.

	Dividend payable	Interest payable	Accrued issue costs	Obligation under finance lease	Bank loans	Amount due to directors	Amount due to a related company	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2016	—	—	—	23	14,422	10,482	14,590	39,517
Financing cash flow	—	(1,128)	—	(23)	14,946	(6,979)	(1,862)	4,954
Interest accrued	—	1,128	—	—	—	—	—	1,128
At 31 March 2017	—	—	—	—	29,368	3,503	12,728	45,599
Financing cash flow	(7,000)	(1,371)	(1,574)	—	6,686	(3,503)	(1,420)	(8,182)
Issue costs accrued	—	—	2,641	—	—	—	—	2,641
Interest accrued	—	1,371	—	—	—	—	—	1,371
Dividend declared	7,000	—	—	—	—	—	—	7,000
At 31 March 2018	—	—	1,067	—	36,054	—	11,308	48,492

28. RETIREMENT BENEFITS SCHEME

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 is matched by employees but subject to a maximum amount of HK\$1,500 per month for each employee to the scheme.

The employees employed by the PRC subsidiary are members of the state-managed retirement benefits schemes operated by the PRC government. The PRC subsidiary is required to contribute a certain percentage of their payroll to the retirement benefits schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefits schemes is to make the required contributions under the schemes.

29. RELATED PARTY TRANSACTIONS

- (a) Other than the transactions and balances disclosed elsewhere in the Historical Financial Information, the Group had the following transactions with related companies during the Track Record Period:

	Year ended 31 March	
	2017	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
Rental expenses paid to related companies controlled by the director of the Company	<u>1,920</u>	<u>1,920</u>

- (b) Guarantee given to bank by a related company, Myth, is as follows:

	At 31 March	
	2017	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
Guarantee from a related company	<u>18,630</u>	<u>18,630</u>

In addition, a director of the Company provided personal guarantee jointly with the Group and a related company, Myth, to banks for the banking facilities granted to the Group of HK\$70,616,000 and HK\$77,623,000 as disclosed in note 26 as at 31 March 2017 and 31 March 2018, respectively. Subsequent to the Track Record Period, the above guarantees provided by the related company and the director of the Company will be released upon Listing.

- (c) Compensation of key management personnel

The remuneration of key management personnel during the Track Record Period was as follows:

	Year ended 31 March	
	2017	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
Short-term employee benefits	2,492	3,097
Retirement benefit scheme contributions	<u>190</u>	<u>198</u>
	<u>2,682</u>	<u>3,295</u>

Key management personnel include directors of the Company and other senior management of the Group. The remuneration of key management personnel is determined by the management of the Company having regard to the performance of individuals and market trends.

30. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that the group entities 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 debts, which includes amounts due to directors, amount due to a related company, bank borrowings, gold loans as set out in Notes 19, 22 and 23, respectively and equity attributable to owners of the Group, comprising share capital and reserves as disclosed in the Historical Financial Information.

The directors of the Company review the capital structure regularly. The Group considers the cost of capital and the risks associated with each class of capital, and will balance its overall capital structure through new share issues and raising or repayment of bank borrowings.

31. FINANCIAL INSTRUMENTS

Categories of financial instruments

	THE GROUP		THE COMPANY
	At 31 March		At 31 March
	2017	2018	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Financial assets			
Loans and receivables (including cash and cash equivalents)	63,966	55,873	—
Financial liabilities			
Amortised cost	57,096	57,050	6,525
Gold loans at FVTPL	12,505	13,263	—
	69,601	70,313	6,525

Financial risk management objectives and policies

The Group's major financial instruments include trade receivables, amounts due from related companies, bank balances and cash, trade and other payables, amounts due to directors, amount due to a related company, bank borrowings and gold loans. The Company's financial instrument is amount

due to a related company. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risks (foreign currency risk and interest rate risk), commodity price risk, credit risk and liquidity risk, and the policies on how to mitigate these risks are set out below. The directors of the Company manage and monitor these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

Foreign currency risk

The Group has limited currency exposure as at majority of the revenue were denominated in function currency of the relevant group entities. The carrying amounts of the Group's foreign currency denominated monetary assets and liabilities at the end of the reporting dates are as follows:

	At 31 March	
	2017	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
Assets		
US\$	101	49
RMB	<u>112</u>	<u>461</u>
Liabilities		
US\$	<u>22,929</u>	<u>21,311</u>

The Group is mainly exposed to the foreign currency risk of US\$ and RMB. Under the pegged exchange rate system, the financial impact on exchange difference between HK\$ and US\$ will be immaterial as most US\$ denominated monetary assets and liabilities are held by group entities having HK\$ as their functional currency, and therefore no sensitivity analysis has been prepared. No sensitivity analysis has been prepared for HK\$ against RMB as the amount involved is insignificant.

Interest rate risk

The Group is exposed to cash flow interest rate risk in relation to variable-rate bank balances and variable-rate bank borrowings (see Notes 20 and 22 for details of these balances). The Group's cash flow interest rate risk is mainly concentrated on the fluctuation on Hong Kong Dollar Prime Rate arising from the Group's Hong Kong dollar denominated bank borrowings. The Group currently does not have a policy on cash flow hedges of interest rate risk. However, the management monitors interest rate exposure and will consider hedging significant interest rate risk should the need arise.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments at the end of the reporting period. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 100 basis points and 10 basis points increase or decrease in bank borrowings and bank balances respectively are used which represents management's assessment of the reasonably possible change in interest rates.

If interest rates on interest bearing borrowings and bank balances had been 100 basis points and 10 basis points respectively higher/lower and all of other variables were held constant, the profit for the year ended 31 March 2017 would decrease/increase by approximately HK\$226,000 and profit for the year ended 31 March 2018 would decrease/increase by approximately HK\$277,000.

Commodity price risk

The Group is engaged in the sales of fine jewellery products including gold products. The gold market is influenced by global as well as regional supply and demand conditions. A significant decline in prices of gold could adversely affect the Group's financial performance. In order to reduce the commodity price risk, the Group uses gold loans to reduce its exposure to fluctuations in the gold price on gold inventory. Gold loans are settled at maturity which is usually in 3 months from date of inception and any fair value change is immediately recognised in profit or loss.

If the market price of gold had been higher/lower by 10%, the potential effect on gold loans and the resulting impact on profit after taxation for the year ended 31 March 2017 would decrease/increase by approximately HK\$1,044,000 and profit after taxation for the year ended 31 March 2018 would decrease/increase by approximately HK\$1,107,000.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations at the end of each reporting period in relation to each class of recognised financial assets is the carrying amount of those assets stated in the combined statements of financial position and the amount of contingent liabilities in relation to financial guarantee provided by the Group as disclosed in Note 26. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. Given the Group's wholesale customers are widely spread over, management considers that the credit risk associated is low. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting periods to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group has no significant concentration of credit risk in trade receivables, with exposure spread over a number of counterparties.

The credit risk on bank balances is minimal as such amounts are placed in banks with good reputation.

Liquidity risk

The management of the Group has built a liquidity risk management framework for managing the Group's short and medium-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining banking facilities and by continuously monitoring forecasted and actual cash flows and the maturity profiles of its financial liabilities. As at 31 March 2017 and 31 March 2018, the Group has available unutilised bank loan facilities of approximately HK\$25,968,000 and HK\$28,724,000 respectively.

The following table details the Group's remaining contractual maturity for its financial liabilities. The table has been drawn up to reflect the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. Specifically, bank loans and gold loans with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The table includes both interest and principal cash flows.

	Weighted average interest rate	On demand or less than 1 year	Total undiscounted cash flows	Carrying amount
	%	HK\$'000	HK\$'000	HK\$'000
THE GROUP				
Financial liabilities				
At 31 March 2017				
Trade and other payables	—	11,497	11,497	11,497
Amounts due to directors	—	3,503	3,503	3,503
Amount due to a related company	—	12,728	12,728	12,728
Bank loans (note a)	2.89	29,368	29,368	29,368
Gold loans at FVTPL (note a)	3.60	12,505	12,505	12,505
Financial guarantee contracts (note b)	—	4,346	4,346	—
		<u>73,947</u>	<u>73,947</u>	<u>69,601</u>
At 31 March 2018				
Trade and other payables	—	9,625	9,625	9,625
Amount due to a related company	—	11,308	11,308	11,308
Bank loans (note a)	2.80	36,054	36,054	36,054
Bank overdrafts	13.00	63	63	63
Gold loans at FVTPL (note a)	3.80	13,263	13,263	13,263
Financial guarantee contracts (note b)	—	4,346	4,346	—
		<u>74,659</u>	<u>74,659</u>	<u>70,313</u>

	Weighted average interest rate	On demand or less than 1 year	Total undiscounted cash flows	Carrying amount
	%	HK\$'000	HK\$'000	HK\$'000
THE COMPANY				
Financial liability				
At 31 March 2018				
Amount due to a related company	—	<u>6,525</u>	<u>6,525</u>	<u>6,525</u>

Notes:

- (a) Bank loans and gold loans with a repayment on demand clause are included in the “on demand or less than 1 year” time band in the above maturity analysis. As at 31 March 2017 and 31 March 2018, the aggregate carrying amount of these bank loans and gold loans amounted to HK\$41,873,000 and HK\$49,317,000, respectively. Taking into account the Group’s financial position, the directors of the Company do not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The directors of the Company believe that such bank loans and gold loans will be repaid in accordance with the scheduled repayment dates set out in the loan agreements with the principal and interest cash outflows as follows:

Aggregate principle and interest cash outflows repayable:

	At 31 March	
	2017	2018
	HK\$'000	HK\$'000
Within one year	16,182	17,955
After one year but within two years	3,470	4,692
After two years but within five years	10,576	14,077
After five years	<u>15,959</u>	<u>18,556</u>
	<u>46,187</u>	<u>55,280</u>

- (b) The amounts included in the undiscounted cash flow above for financial guarantee contracts are the maximum amounts the Group could be required to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee. However, based on expectations at the end of the reporting period, the Group considers that it is likely that no amount will be payable under the arrangement. This estimate is subject to change depending on the probability of the counterparty claiming under the guarantee which is a function of the likelihood that the financial receivables held by the counterparty which are guaranteed suffer credit losses.

Fair value measurements of financial instruments

The fair value of gold loans is determined using discounted cash flow valuation technique reference to quoted market bid price of gold traded in active liquid market as a key input.

The following table provides an analysis of gold loans that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 31 March 2017				
Financial liability				
Gold loans	<u>—</u>	<u>12,505</u>	<u>—</u>	<u>12,505</u>
At 31 March 2018				
Financial liability				
Gold loans	<u>—</u>	<u>13,263</u>	<u>—</u>	<u>13,263</u>

There were no transfers into or out of Level 2 during the respective years.

In estimating the fair value, the Group uses market-observable data to the extent it is available. When Level 1 inputs were not available, the Group performed the valuation using discounted cash flow model with reference to comparable market data.

The directors of the Company consider that the carrying amounts of financial assets and liability recorded at amortised cost in the Historical Financial Information approximate their fair values which have been determined in accordance with generally accepted pricing models based on discounted cash flow at the end of each reporting period.

32. PARTICULARS OF PRINCIPAL SUBSIDIARIES

At the date of this report, the Company has direct and indirect equity interests in the following subsidiaries:

Name of subsidiary	Place and date of incorporation/ establishment	Place of operations	Issued and fully paid share capital/ registered capital	Equity interest attributable to the Group		At date of this report	Principal activities	Notes
				31.3.2017	31.3.2018			
Directly held:								
BVI-2	BVI 6 February 2018	BVI	US\$ 1	N/A	N/A	100%	Investment holding	(a)
BVI-3	BVI 6 February 2018	BVI	US\$ 1	N/A	N/A	100%	Investment holding	(a)
Indirectly held:								
卓睿珠寶(深圳)有限公司	PRC 18 November 2011	PRC	HK\$ 8,000,000	88.37%	88.37%	100%	Manufacturing of jewellery	(b)
Zhuohui Jewellery 智達行珠寶(深圳)有限公司	PRC 29 May 2015	PRC	US\$ 1,000,000	100%	100%	100%	Inactive	(b) (d)
Zhidahang Jewellery Chuk Fung	Hong Kong 7 November 2003	Hong Kong	HK\$ 10,000	88.37%	88.37%	100%	Investment holding	(c)
W-Rich	Hong Kong 29 November 2011	Hong Kong	HK\$ 1	100%	100%	100%	Procurement, marketing and promotion, distribution and wholesale of jewellery	(c)
Chong Fai Holdings (Formerly known as China Fair Enterprises Limited)	Hong Kong 7 January 2000	Hong Kong	HK\$ 10,000	87.21%	87.21%	100%	Procurement, marketing and promotion, distribution of jewellery and trading of recycled gold products	(c)
Chong Fai Jewellery (Formerly known as Selsen Enterprises Limited)	Hong Kong 14 March 1997	Hong Kong	HK\$20,010,000	99.99%	99.99%	100%	Procurement, marketing and promotion, distribution, retail of jewellery	(c)
King Jewellery (Formerly known as Forever Jewellery Company Limited)	Hong Kong 28 May 2012	Hong Kong	HK\$ 1	100%	100%	100%	Procurement, marketing and promotion, distribution and wholesale of jewellery	(c)

Except for Zhidahang Jewellery and Zhuohui Jewellery which adopts the financial year end date of 31 December, all subsidiaries now comprising the Group are limited liability companies and have adopted 31 March as their financial year end date.

Notes:

- (a) No audited financial statements of these companies have been prepared since their date of incorporation as they were incorporated in a jurisdiction where there is no statutory audit requirements.
- (b) The statutory financial statements of Zhidahang Jewellery and Zhuohui Jewellery were prepared in accordance with relevant accounting principles and regulations applicable to entities established in the PRC. The PRC statutory financial statements of Zhuohui Jewellery for the year ended 31 December 2016 and 31 December 2017 were audited by 深圳朋飛會計師事務所, Certified Public Accountants registered in the PRC. The PRC statutory financial statements of Zhidahang Jewellery for the year ended 31 December 2016 were audited by 深圳金信達會計師事務所, Certified Public Accountants registered in the PRC.
- (c) The statutory financial statements of Chuk Fung, W-Rich, Chong Fai Holdings, Chong Fai Jewellery and King Jewellery for the year ended 31 March 2017 and 31 March 2018 were prepared in accordance with HKFRSs issued by the HKICPA and were audited by us in accordance with HKSAs issued by the HKICPA.
- (d) No audited financial statements for the year ended 31 December 2017 have been prepared as it is in the process of deregistration that it is not subject to statutory audit requirements.

33. EVENTS AFTER THE REPORTING PERIOD

The following significant events of the Group took place subsequent to 31 March 2018:

- (a) On 12 April 2018, all shares held by one of the non-controlling shareholders of Chong Fai Holdings, Chong Fai Jewellery and Chuk Fung, Mr. Lo Fong Sang, were transferred from the Official Receiver on behalf of Mr. Lo Fong Sang to Mr. Fu at a consideration of HK\$459,000 in total. On 12 April 2018, Mr. Fu, Ms. Fu Wan Ling and Mrs. Fu, entered into a Share Swap Deed with BVI-2, BVI-3 and BVI-1, pursuant to which: (i) Mr. Fu, Ms. Fu Wan Ling and Mrs. Fu, shall transfer 9,376 shares, 398 shares, and 226 shares of Chong Fai Holdings respectively, 20,009,025 shares, 398 shares, and 227 shares of Chong Fai Jewellery, respectively, 9,477 shares, 407 shares, and 116 shares of Chuk Fung, respectively, to BVI-2; and (ii) Mr. Fu shall transfer 1 share of King Jewellery and 1 share of W-Rich, to BVI-3, in consideration of BVI-1 allotting and issuing 9,928 shares, 48 shares and 23 shares of BVI-1 to Mr. Fu, Ms. Fu Wan Ling and Mrs. Fu representing 99.29%, 0.48% and 0.23% of BVI-1, respectively, all credited as fully paid up in the capital of BVI-1. The Share Swap Deed was completed on 12 April 2018 which is the same as the completion date of the Group Reorganisation.
- (b) On 3 April 2018, King Jewellery and W-Rich declared a special dividend to Mr. Fu, the controlling shareholder, in aggregate amount of HK\$9.0 million.
- (c) On 26 September 2018, the authorised share capital of the Company was increased from HK\$380,000 divided into 38,000,000 shares to HK\$15,000,000 divided into 1,500,000,000 shares by the creation of an additional 1,462,000,000 shares pursuant to the written resolutions passed by the sole shareholder.

- (d) The issue of 562,499,999 shares to be made upon capitalisation of part of the amount standing to the credit of the share premium account of the Company as set out in the section headed “A. Further information about the Group - 5. Written resolutions of the sole shareholder passed on 26 September 2018” in Appendix IV to this prospectus.

- (e) On 26 September 2018, the Company has conditionally adopted the Share Option Scheme, the principal terms of which are summarised in the sub-section headed “F. Other information — 1. Share Option Scheme” in Appendix IV to this prospectus.

34. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the companies of the Group subsequent to 31 March 2018.

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

The information set forth in this appendix does not form part of the accountants' report on the financial information for the year ended 31 March 2017 and 2018 of the Group (the "Accountants' Report on Historical Financial Information") from Deloitte Touche Tohmatsu, 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 information only. The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" and the "Accountants' Report on Historical Financial Information" set forth in Appendix I to this Prospectus.

A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED COMBINED NET TANGIBLE ASSETS OF THE GROUP ATTRIBUTABLE TO THE OWNER OF THE COMPANY

The following unaudited pro forma statement of adjusted combined net tangible assets of the Group attributable to owners of the Company prepared in accordance with Rules 7.31 of GEM Listing Rules is for illustrative purpose only, and is set out below to illustrate the effect of the Share Offer on the combined net tangible assets of the Group attributable to owners of the Company as at 31 March 2018, as if the Share Offer had taken place on such date.

The unaudited pro forma statement of adjusted combined net tangible assets of the Group attributable to the owner of the Company has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the combined net tangible assets of the Group attributable to the owner of the Company as at 31 March 2018 or at any future dates following the Share Offer. It is prepared based on the audited combined net tangible assets of the Group attributable to the owner of the Company as at 31 March 2018 as shown in the Accountants' Report on Historical Financial Information as set out in Appendix I to this prospectus and adjusted as described below.

	Audited combined net tangible assets of the Group attributable to the owner of the Company as at 31 March 2018	Estimated net proceeds from the Share Offer	Unaudited pro forma adjusted combined net tangible assets of the Group attributable to the owners of the Company as at 31 March 2018	Unaudited pro forma adjusted combined net tangible assets of the Group attributable to owners of the Company per Share as at 31 March 2018
	<i>HK\$'000</i> <i>(Note 1)</i>	<i>HK\$'000</i> <i>(Note 2)</i>	<i>HK\$'000</i>	<i>HK cents</i> <i>(Notes 3 & 4)</i>
Based on the Offer Price of HK\$0.30 per Offer Share	<u>52,606</u>	<u>41,644</u>	<u>94,250</u>	<u>0.13</u>
Based on the Offer Price of HK\$0.34 per Offer Share	<u>52,606</u>	<u>48,619</u>	<u>101,225</u>	<u>0.14</u>

Note 1 The audited combined net tangible assets of the Group attributable to the owner of the Company as at 31 March 2018 is based on the audited combined net assets of the Group attributable to the owner of the Company amounted to HK\$52,606,000, extracted from the Accountants' Report on Historical Financial Information set out in Appendix I to this prospectus.

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

- Note 2 The estimated net proceeds from the Share Offer are based on 187,500,000 Shares at the Offer Price of HK\$0.30 per Share and HK\$0.34 per Offer Share, after deduction of the estimated underwriting fees and other related fees and expenses incurred or expected to be incurred by the Group (excluding approximately HK\$8,151,000 of listing expenses which has been charged to profit or loss up to 31 March 2018 by the Group). It does not take into account of any Shares which may be issued upon the exercise of options which may be granted under the Share Option Scheme or any Shares which may be issued or repurchased by the Company pursuant to the Company's general mandates.
- Note 3 The unaudited pro forma adjusted combined net tangible assets of the Group attributable to owners of the Company as at 31 March 2018 per Share has been arrived at after making the adjustments referred to in note 2 above and on the basis of a total of 741,065,351 Shares assuming that the Share Offer and the Capitalisation Issue have been completed on 31 March 2018. It does not take into account of any Shares which may be issued upon exercise of options which may be granted under the Share Option Scheme or any Shares which may be issued or repurchased by the Company pursuant to the Company's general mandates.
- Note 4 The unaudited pro forma adjusted combined net tangible assets of the Group attributable to owners of the Company does not take into account of a special dividend of HK\$9 million declared on 3 April 2018 by the group entities. Such dividend is expected to be paid to one of the Company's Shareholders before the Listing. Had the dividend been taken into account, the unaudited pro forma adjusted combined net tangible assets of the Group attributable to owners of the Company per Share would be HK\$0.12 (assuming an Offer Price of HK\$0.30 per Share) and HK\$0.12 (assuming an Offer Price of HK\$0.34 per Share), respectively.
- Note 5 Except for the above, no adjustment has been made to the unaudited pro forma statement of adjusted combined net tangible assets of the Group attributable to the owner of the Company to reflect any trading result or other transactions of the Group entered into subsequent to 31 March 2018.

**B. INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE
COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION**

The following is the text of the independent reporting accountants' assurance report received from Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, in respect of the Group's unaudited pro forma financial information prepared for the purpose of incorporation in this prospectus.

Deloitte.

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**INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE
COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION**

TO THE DIRECTORS OF DOMINATE GROUP HOLDINGS COMPANY LIMITED

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Dominate Group Holdings Company Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted combined net tangible assets as at 31 March 2018 and related notes as set out in Appendix II to the prospectus issued by the Company dated 29 September 2018 (the "Prospectus"). The applicable criteria on the basis of which the Directors have compiled the unaudited pro forma financial information are described in section A of Appendix II to the Prospectus.

The unaudited pro forma financial information has been compiled by the Directors to illustrate the impact of the proposed listing of the shares of the Company on GEM of The Stock Exchange of Hong Kong Limited by way of share offer (the "Share Offer") on the Group's financial position as at 31 March 2018 as if the Share Offer had taken place at 31 March 2018. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's historical financial information for each of the two years ended 31 March 2017 and 2018, on which an accountants' report set out in Appendix I to the Prospectus has been published.

Directors' Responsibilities for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the unaudited pro forma financial information in accordance with paragraph 7.31 of the Rules Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited (the "GEM Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the “Code of Ethics for Professional Accountants” issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 “Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements” issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants’ Responsibilities

Our responsibility is to express an opinion, as required by paragraph 7.31(7) of the GEM Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 “Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus” issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the unaudited pro forma financial information in accordance with paragraph 7.31 of the GEM Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the unaudited pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the unaudited pro forma financial information.

The purpose of unaudited pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 31 March 2018 would have been as presented.

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

- (a) the unaudited pro forma financial information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 7.31(1) of the GEM Rules.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

29 September 2018

APPENDIX III SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

SUMMARY OF THE CONSTITUTION OF THE COMPANY

1 MEMORANDUM OF ASSOCIATION

The Memorandum of Association of the Company was conditionally adopted on 26 September 2018 and states, inter alia, that the liability of the members of the Company is limited, that the objects for which the Company is established are unrestricted and the Company shall have full power and authority to carry out any object not prohibited by the Companies Law or any other law of the Cayman Islands.

The Memorandum of Association is available for inspection at the address specified in Appendix V in the section headed “Documents available for inspection”.

2 ARTICLES OF ASSOCIATION

The Articles of Association of the Company were conditionally adopted on 26 September and include provisions to the following effect:

2.1 Classes of Shares

The share capital of the Company consists of ordinary shares. The capital of the Company at the date of adoption of the Articles is HK\$15,000,000 divided into 1,500,000,000 shares of HK\$0.01 each.

2.2 Directors

(a) *Power to allot and issue Shares*

Subject to the provisions of the Companies Law and the Memorandum and Articles of Association, the unissued shares in the Company (whether forming part of its original or any increased capital) shall be at the disposal of the Directors, who may offer, allot, grant options over or otherwise dispose of them to such persons, at such times and for such consideration, and upon such terms, as the Directors shall determine.

Subject to the provisions of the Articles of Association and to any direction that may be given by the Company in general meeting and without prejudice to any special rights conferred on the holders of any existing shares or attaching to any class of shares, any share may be issued with or have attached thereto such preferred, deferred, qualified or other special rights or restrictions, whether in regard to dividend, voting, return of capital or otherwise, and to such persons at such times and for such consideration as the Directors may determine. Subject to the Companies Law and to any special rights conferred on any shareholders or attaching to any class of shares, any share may, with the sanction of a special resolution, be issued on terms that it is, or at the option of the Company or the holder thereof, liable to be redeemed.

APPENDIX III SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

(b) *Power to dispose of the assets of the Company or any subsidiary*

The management of the business of the Company shall be vested in the Directors who, in addition to the powers and authorities by the Articles of Association expressly conferred upon them, may exercise all such powers and do all such acts and things as may be exercised or done or approved by the Company and are not by the Articles of Association or the Companies Law expressly directed or required to be exercised or done by the Company in general meeting, but subject nevertheless to the provisions of the Companies Law and of the Articles of Association and to any regulation from time to time made by the Company in general meeting not being inconsistent with such provisions or the Articles of Association, provided that no regulation so made shall invalidate any prior act of the Directors which would have been valid if such regulation had not been made.

(c) *Compensation or payment for loss of office*

Payment to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must first be approved by the Company in general meeting.

(d) *Loans to Directors*

There are provisions in the Articles of Association prohibiting the making of loans to Directors or their respective close associates which are equivalent to the restrictions imposed by the Companies Ordinance.

(e) *Financial assistance to purchase Shares*

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries or any holding company or any subsidiary of such holding company in order that they may buy shares in the Company or any such subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

(f) *Disclosure of interest in contracts with the Company or any of its subsidiaries*

No Director or proposed Director shall be disqualified by his office from contracting with the Company either as vendor, purchaser or otherwise nor shall any such contract or any contract or arrangement entered into by or on behalf of the Company with any person, company or partnership of or in which any Director shall be a member or otherwise interested be capable on that account of being avoided, nor shall any Director so contracting or being any member or so interested be liable to account to the Company for any profit so realised by any such contract or arrangement by reason only of such Director holding that office or the fiduciary relationship thereby established, provided that such Director shall, if his interest in such contract or arrangement is material, declare the nature

APPENDIX III SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

of his interest at the earliest meeting of the board of Directors at which it is practicable for him to do so, either specifically or by way of a general notice stating that, by reason of the facts specified in the notice, he is to be regarded as interested in any contracts of a specified description which may be made by the Company.

A Director shall not be entitled to vote on (nor shall be counted in the quorum in relation to) any resolution of the Directors in respect of any contract or arrangement or any other proposal in which the Director or any of his close associates (or, if required by the GEM Listing Rules, his other associates) has any material interest, and if he shall do so his vote shall not be counted (nor is he to be counted in the quorum for the resolution), but this prohibition shall not apply to any of the following matters, namely:

- (i) the giving to such Director or any of his close associates of any security or indemnity in respect of money lent or obligations incurred or undertaken by him or any of them at the request of or for the benefit of the Company or any of its subsidiaries;
- (ii) the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or any of his close associates has himself/themselves assumed responsibility in whole or in part and whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (iii) any proposal concerning an offer of shares, debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase where the Director or any of his close associates is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (iv) any proposal or arrangement concerning the benefit of employees of the Company or any of its subsidiaries including:
 - (A) the adoption, modification or operation of any employees' share scheme or any share incentive scheme or share option scheme under which the Director or any of his close associates may benefit; or
 - (B) the adoption, modification or operation of a pension or provident fund or retirement, death or disability benefits scheme which relates both to Directors, their close associates and employees of the Company or any of its subsidiaries and does not provide in respect of any Director or any of his close associates, as such any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; and
- (v) any contract or arrangement in which the Director or any of his close associates is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company.

APPENDIX III SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

(g) *Remuneration*

The Directors shall be entitled to receive by way of remuneration for their services such sum as shall from time to time be determined by the Directors, or the Company in general meeting, as the case may be, such sum (unless otherwise directed by the resolution by which it is determined) to be divided amongst the Directors in such proportions and in such manner as they may agree, or failing agreement, equally, except that in such event any Director holding office for less than the whole of the relevant period in respect of which the remuneration is paid shall only rank in such division in proportion to the time during such period for which he has held office. Such remuneration shall be in addition to any other remuneration to which a Director who holds any salaried employment or office in the Company may be entitled by reason of such employment or office.

The Directors shall also be entitled to be paid all expenses, including travel expenses, reasonably incurred by them in or in connection with the performance of their duties as Directors including their expenses of travelling to and from board meetings, committee meetings or general meetings or otherwise incurred whilst engaged on the business of the Company or in the discharge of their duties as Directors.

The Directors may grant special remuneration to any Director who shall perform any special or extra services at the request of the Company. Such special remuneration may be made payable to such Director in addition to or in substitution for his ordinary remuneration as a Director, and may be made payable by way of salary, commission or participation in profits or otherwise as may be agreed.

The remuneration of an executive Director or a Director appointed to any other office in the management of the Company shall from time to time be fixed by the Directors and may be by way of salary, commission or participation in profits or otherwise or by all or any of those modes and with such other benefits (including share option and/or pension and/or gratuity and/or other benefits on retirement) and allowances as the Directors may from time to time decide. Such remuneration shall be in addition to such remuneration as the recipient may be entitled to receive as a Director.

(h) *Retirement, appointment and removal*

The Directors shall have power at any time and from time to time to appoint any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors. Any Director so appointed shall hold office only until the next general meeting of the Company and shall then be eligible for re-election at that meeting.

The Company may by ordinary resolution remove any Director (including a Managing Director or other executive Director) before the expiration of his period of office notwithstanding anything in the Articles of Association or in any agreement between the Company and such Director (but without prejudice to any claim for compensation or damages payable to him in respect of the termination of his appointment as Director or of any other appointment of office as a result of the termination of this appointment as Director). The Company may by ordinary resolution appoint another person in his place. Any Director so appointed shall hold office during such time only as the Director in whose place he is appointed would have held the same if he had not been removed. The Company may also by

APPENDIX III SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

ordinary resolution elect any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors. Any Director so appointed shall hold office only until the next following general meeting of the Company and shall then be eligible for re-election but shall not be taken into account in determining the number of Directors and which Directors are to retire by rotation at such meeting. No person shall, unless recommended by the Directors, be eligible for election to the office of Director at any general meeting unless, during the period, which shall be at least seven days, commencing no earlier than the day after the despatch of the notice of the meeting appointed for such election and ending no later than seven days prior to the date of such meeting, there has been given to the Secretary of the Company notice in writing by a member of the Company (not being the person to be proposed) entitled to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also notice in writing signed by the person to be proposed of his willingness to be elected.

There is no shareholding qualification for Directors nor is there any specified age limit for Directors.

The office of a Director shall be vacated:

- (i) if he resigns his office by notice in writing to the Company at its registered office or its principal office in Hong Kong;
- (ii) if an order is made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs and the Directors resolve that his office be vacated;
- (iii) if, without leave, he is absent from meetings of the Directors (unless an alternate Director appointed by him attends) for 12 consecutive months, and the Directors resolve that his office be vacated;
- (iv) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;
- (v) if he ceases to be or is prohibited from being a Director by law or by virtue of any provision in the Articles of Association;
- (vi) if he is removed from office by notice in writing served upon him signed by not less than three-fourths in number (or, if that is not a round number, the nearest lower round number) of the Directors (including himself) for the time being then in office; or
- (vii) if he shall be removed from office by an ordinary resolution of the members of the Company under the Articles of Association.

At every annual general meeting of the Company one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to, but not less than, one-third, shall retire from office by rotation, provided that every Director (including those appointed

APPENDIX III SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

for a specific term) shall be subject to retirement by rotation at least once every three years. A retiring Director shall retain office until the close of the meeting at which he retires and shall be eligible for re-election thereat. The Company at any annual general meeting at which any Directors retire may fill the vacated office by electing a like number of persons to be Directors.

(i) *Borrowing powers*

The Directors may from time to time at their discretion exercise all the powers of the Company to raise or borrow or to secure the payment of any sum or sums of money for the purposes of the Company and to mortgage or charge its undertaking, property and assets (present and future) and uncalled capital or any part thereof.

(j) *Proceedings of the Board*

The Directors may meet together for the despatch of business, adjourn and otherwise regulate their meetings and proceedings as they think fit in any part of the world. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have a second or casting vote.

2.3 Alteration to constitutional documents

No alteration or amendment to the Memorandum or Articles of Association may be made except by special resolution.

2.4 Variation of rights of existing shares or classes of shares

If at any time the share capital of the Company is divided into different classes of shares, all or any of the rights attached to any class of shares for the time being issued (unless otherwise provided for in the terms of issue of the shares of that class) may, subject to the provisions of the Companies Law, be varied or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate meeting of the holders of the shares of that class. To every such separate meeting all the provisions of the Articles of Association relating to general meetings shall *mutatis mutandis* apply, but so that the quorum for the purposes of any such separate meeting and of any adjournment thereof shall be a person or persons together holding (or representing by proxy or duly authorised representative) at the date of the relevant meeting not less than one-third in nominal value of the issued shares of that class.

The special rights conferred upon the holders of shares of any class shall not, unless otherwise expressly provided in the rights attaching to or the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

2.5 Alteration of capital

The Company may, from time to time, whether or not all the shares for the time being authorised shall have been issued and whether or not all the shares for the time being issued shall have been fully paid up, by ordinary resolution, increase its share capital by the creation of new shares, such new capital to be of such amount and to be divided into shares of such respective amounts as the resolution shall prescribe.

APPENDIX III SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

The Company may from time to time by ordinary resolution:

- (a) consolidate and divide all or any of its share capital into shares of a larger amount than its existing shares. On any consolidation of fully paid shares and division into shares of larger amount, the Directors may settle any difficulty which may arise as they think expedient and in particular (but without prejudice to the generality of the foregoing) may as between the holders of shares to be consolidated determine which particular shares are to be consolidated into each consolidated share, and if it shall happen that any person shall become entitled to fractions of a consolidated share or shares, such fractions may be sold by some person appointed by the Directors for that purpose and the person so appointed may transfer the shares so sold to the purchaser thereof and the validity of such transfer shall not be questioned, and so that the net proceeds of such sale (after deduction of the expenses of such sale) may either be distributed among the persons who would otherwise be entitled to a fraction or fractions of a consolidated share or shares rateably in accordance with their rights and interests or may be paid to the Company for the Company's benefit;
- (b) cancel any shares which at the date of the passing of the resolution have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the shares so cancelled subject to the provisions of the Companies Law; and
- (c) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum of Association, subject nevertheless to the provisions of the Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares.

The Company may by special resolution reduce its share capital or any capital redemption reserve in any manner authorised and subject to any conditions prescribed by the Companies Law.

2.6 Special resolution — majority required

A "special resolution" is defined in the Articles of Association to have the meaning ascribed thereto in the Companies Law, for which purpose, the requisite majority shall be not less than three-fourths of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given and includes a special resolution approved in writing by all of the members of the Company entitled to vote at a general meeting of the Company in one or more instruments each signed by one or more of such members, and the effective date of the special resolution so adopted shall be the date on which the instrument or the last of such instruments (if more than one) is executed.

APPENDIX III SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

In contrast, an “ordinary resolution” is defined in the Articles of Association to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles of Association and includes an ordinary resolution approved in writing by all the members of the Company aforesaid.

2.7 Voting rights

Subject to any special rights, privileges or restrictions as to voting for the time being attached to any class or classes of shares, at any general meeting on a poll every member present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy shall have one vote for each share registered in his name in the register of members of the Company.

Where any member is, under the GEM Listing Rules, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

In the case of joint registered holders of any share, any one of such persons may vote at any meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto; but if more than one of such joint holders be present at any meeting personally or by proxy, that one of the said persons so present being the most or, as the case may be, the more senior shall alone be entitled to vote in respect of the relevant joint holding and, for this purpose, seniority shall be determined by reference to the order in which the names of the joint holders stand on the register in respect of the relevant joint holding.

A member of the Company in respect of whom an order has been made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs may vote by any person authorised in such circumstances to do so and such person may vote by proxy.

Save as expressly provided in the Articles of Association or as otherwise determined by the Directors, no person other than a member of the Company duly registered and who shall have paid all sums for the time being due from him payable to the Company in respect of his shares shall be entitled to be present or to vote (save as proxy for another member of the Company), or to be reckoned in a quorum, either personally or by proxy at any general meeting.

At any general meeting a resolution put to the vote of the meeting shall be decided by way of a poll save that the chairman of the meeting may allow a resolution which relates purely to a procedural or administrative matter as prescribed under the GEM Listing Rules to be voted on by a show of hands.

If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such person or persons as it thinks fit to act as its proxy(ies) or representative(s) at any general meeting of the Company or at any general meeting of any class of members of the Company provided

APPENDIX III SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be entitled to exercise the same rights and powers on behalf of the recognised clearing house (or its nominee(s)) which he represents as that recognised clearing house (or its nominee(s)) could exercise as if it were an individual member of the Company holding the number and class of shares specified in such authorisation, including, where a show of hands is allowed, the right to vote individually on a show of hands.

2.8 Annual general meetings and extraordinary general meetings

The Company shall hold a general meeting as its annual general meeting each year, within a period of not more than 15 months after the holding of the last preceding annual general meeting (or such longer period as the Stock Exchange may authorise). The annual general meeting shall be specified as such in the notices calling it.

The board of Directors may, whenever it thinks fit, convene an extraordinary general meeting. General meetings shall also be convened on the written requisition of any two or more members deposited at the principal office of the Company in Hong Kong or, in the event the Company ceases to have such a principal office, the registered office specifying the objects of the meeting and signed by the requisitionists, provided that such requisitionists held as at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company. General meetings shall also be convened on the written requisition of any one member which is a recognised clearing house (or its nominee(s)) deposited at the principal office of the Company in Hong Kong or, in the event the Company ceases to have such a principal office, the registered office specifying the objects of the meeting and signed by the requisitioner, provided that such requisitioner held as at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company. If the Directors do not within 21 days from the date of deposit of the requisition proceed duly to convene the meeting to be held within a further 21 days, the requisitioner(s) themselves or any of them representing more than one-half of the total rights of all of them, may convene the general meeting in the same manner, as nearly as possible, as that in which meetings may be convened by the Directors provided that any meeting so convened shall not be held after the expiration of the three months from the date of deposit of the requisition, and all reasonable expenses incurred by the requisitioner(s) as a result of the failure of the Directors shall be reimbursed to them by the Company.

2.9 Accounts and audit

The Directors shall cause to be kept such books of account as are necessary to give a true and fair view of the state of the Company's affairs and to show and explain its transactions and otherwise in accordance with the Companies Law.

The Directors shall from time to time determine whether, and to what extent, and at what times and places and under what conditions or regulations, the accounts and books of the Company, or any

APPENDIX III SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

of them, shall be open to the inspection by members of the Company (other than officers of the Company) and no such member shall have any right of inspecting any accounts or books or documents of the Company except as conferred by the Companies Law or any other relevant law or regulation or as authorised by the Directors or by the Company in general meeting.

The Directors shall, commencing with the first annual general meeting, cause to be prepared and to be laid before the members of the Company at every annual general meeting a profit and loss account for the period, in the case of the first account, since the incorporation of the Company and, in any other case, since the preceding account, together with a balance sheet as at the date to which the profit and loss account is made up and a Director's report with respect to the profit or loss of the Company for the period covered by the profit and loss account and the state of the Company's affairs as at the end of such period, an auditor's report on such accounts and such other reports and accounts as may be required by law. Copies of those documents to be laid before the members of the Company at an annual general meeting shall not less than 21 days before the date of the meeting, be sent in the manner in which notices may be served by the Company as provided in the Articles of Association to every member of the Company and every holder of debentures of the Company provided that the Company shall not be required to send copies of those documents to any person of whose address the Company is not aware or to more than one of the joint holders of any shares or debentures.

2.10 Auditors

The Company shall at every annual general meeting appoint an auditor or auditors of the Company who shall hold office until the next annual general meeting. The removal of an auditor before the expiration of his period of office shall require the approval of an ordinary resolution of the members in general meeting. The remuneration of the auditors shall be fixed by the Company at the annual general meeting at which they are appointed provided that in respect of any particular year the Company in general meeting may delegate the fixing of such remuneration to the Directors.

2.11 Notice of meetings and business to be conducted thereat

An annual general meeting shall be called by not less than 21 days' notice in writing and any extraordinary general meeting shall be called by not less than 14 days' notice in writing. The notice shall be exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and shall specify the time, place and agenda of the meeting, particulars of the resolutions and the general nature of the business to be considered at the meeting. The notice convening an annual general meeting shall specify the meeting as such, and the notice convening a meeting to pass a special resolution shall specify the intention to propose the resolution as a special resolution. Notice of every general meeting shall be given to the auditors and all members of the Company (other than those who, under the provisions of the Articles of Association or the terms of issue of the shares they hold, are not entitled to receive such notice from the Company).

APPENDIX III SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above, it shall be deemed to have been duly called if it is so agreed:

- (a) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat or their proxies; and
- (b) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than 95% in nominal value of the shares giving that right.

2.12 Transfer of shares

Transfers of shares may be effected by an instrument of transfer in the usual common form or in such other form as the Directors may approve which is consistent with the standard form of transfer as prescribed by the Stock Exchange.

The instrument of transfer shall be executed by or on behalf of the transferor and, unless the Directors otherwise determine, the transferee, and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members of the Company in respect thereof. All instruments of transfer shall be retained by the Company.

The Directors may refuse to register any transfer of any share which is not fully paid up or on which the Company has a lien. The Directors may also decline to register any transfer of any shares unless:

- (a) the instrument of transfer is lodged with the Company accompanied by the certificate for the shares to which it relates (which shall upon the registration of the transfer be cancelled) and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer;
- (b) the instrument of transfer is in respect of only one class of shares;
- (c) the instrument of transfer is properly stamped (in circumstances where stamping is required);
- (d) in the case of a transfer to joint holders, the number of joint holders to whom the share is to be transferred does not exceed four;
- (e) the shares concerned are free of any lien in favour of the Company; and
- (f) a fee of such amount not exceeding the maximum amount as the Stock Exchange may from time to time determine to be payable (or such lesser sum as the Directors may from time to time require) is paid to the Company in respect thereof.

APPENDIX III SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

If the Directors refuse to register a transfer of any share they shall, within two months after the date on which the transfer was lodged with the Company, send to each of the transferor and the transferee notice of such refusal.

The registration of transfers may, on 10 business days' notice (or on 6 business days' notice in the case of a rights issue) being given by advertisement published on the Stock Exchange's website, or, subject to the GEM Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association or by advertisement published in the newspapers, be suspended and the register of members of the Company closed at such times for such periods as the Directors may from time to time determine, provided that the registration of transfers shall not be suspended or the register closed for more than 30 days in any year (or such longer period as the members of the Company may by ordinary resolution determine provided that such period shall not be extended beyond 60 days in any year).

2.13 Power of the Company to purchase its own shares

The Company is empowered by the Companies Law and the Articles of Association to purchase its own shares subject to certain restrictions and the Directors may only exercise this power on behalf of the Company subject to the authority of its members in general meeting as to the manner in which they do so and to any applicable requirements imposed from time to time by the Stock Exchange and the Securities and Futures Commission of Hong Kong. Shares which have been repurchased will be treated as cancelled upon the repurchase.

2.14 Power of any subsidiary of the Company to own shares

There are no provisions in the Articles of Association relating to the ownership of shares by a subsidiary.

2.15 Dividends and other methods of distribution

Subject to the Companies Law and the Articles of Association, the Company in general meeting may declare dividends in any currency but no dividends shall exceed the amount recommended by the Directors. No dividend may be declared or paid other than out of profits and reserves of the Company lawfully available for distribution, including share premium.

Unless and to the extent that the rights attached to any shares or the terms of issue thereof otherwise provide, all dividends shall (as regards any shares not fully paid throughout the period in respect of which the dividend is paid) be apportioned and paid pro rata according to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. For these purposes no amount paid up on a share in advance of calls shall be treated as paid up on the share.

The Directors may from time to time pay to the members of the Company such interim dividends as appear to the Directors to be justified by the profits of the Company. The Directors may also pay half-yearly or at other intervals to be selected by them any dividend which may be at a fixed rate if they are of the opinion that the profits available for distribution justify the payment.

APPENDIX III SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

The Directors may retain any dividends or other monies payable on or in respect of a share upon which the Company has a lien, and may apply the same in or towards satisfaction of the debts, liabilities or engagements in respect of which the lien exists. The Directors may also deduct from any dividend or other monies payable to any member of the Company all sums of money (if any) presently payable by him to the Company on account of calls, instalments or otherwise.

No dividend shall carry interest against the Company.

Whenever the Directors or the Company in general meeting have resolved that a dividend be paid or declared on the share capital of the Company, the Directors may further resolve: (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up on the basis that the shares so allotted are to be of the same class as the class already held by the allottee, provided that the members of the Company entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or (b) that the members of the Company entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the Directors may think fit on the basis that the shares so allotted are to be of the same class as the class already held by the allottee. The Company may upon the recommendation of the Directors by ordinary resolution resolve in respect of any one particular dividend of the Company that notwithstanding the foregoing a dividend may be satisfied wholly in the form of an allotment of shares credited as fully paid without offering any right to members of the Company to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to a holder of shares may be paid by cheque or warrant sent through the post addressed to the registered address of the member of the Company entitled, or in the case of joint holders, to the registered address of the person whose name stands first in the register of members of the Company in respect of the joint holding or to such person and to such address as the holder or joint holders may in writing direct. Every cheque or warrant so sent shall be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register of members of the Company in respect of such shares, and shall be sent at his or their risk and the payment of any such cheque or warrant by the bank on which it is drawn shall operate as a good discharge to the Company in respect of the dividend and/or bonus represented thereby, notwithstanding that it may subsequently appear that the same has been stolen or that any endorsement thereon has been forged. The Company may cease sending such cheques for dividend entitlements or dividend warrants by post if such cheques or warrants have been left uncashed on two consecutive occasions. However, the Company may exercise its power to cease sending cheques for dividend entitlements or dividend warrants after the first occasion on which such a cheque or warrant is returned undelivered. Any one of two or more joint holders may give effectual receipts for any dividends or other monies payable or property distributable in respect of the shares held by such joint holders.

Any dividend unclaimed for six years from the date of declaration of such dividend may be forfeited by the Directors and shall revert to the Company.

The Directors may, with the sanction of the members of the Company in general meeting, direct that any dividend be satisfied wholly or in part by the distribution of specific assets of any kind, and

APPENDIX III SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

in particular of paid up shares, debentures or warrants to subscribe securities of any other company, and where any difficulty arises in regard to such distribution the Directors may settle it as they think expedient, and in particular may disregard fractional entitlements, round the same up or down or provide that the same shall accrue to the benefit of the Company, and may fix the value for distribution of such specific assets and may determine that cash payments shall be made to any members of the Company upon the footing of the value so fixed in order to adjust the rights of all parties, and may vest any such specific assets in trustees as may seem expedient to the Directors.

2.16 Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company shall be entitled to appoint another person who must be an individual as his proxy to attend and vote instead of him and a proxy so appointed shall have the same right as the member to speak at the meeting. A proxy need not be a member of the Company.

Instruments of proxy shall be in common form or in such other form as the Directors may from time to time approve provided that it shall enable a member to instruct his proxy to vote in favour of or against (or in default of instructions or in the event of conflicting instructions, to exercise his discretion in respect of) each resolution to be proposed at the meeting to which the form of proxy relates. The instrument of proxy shall be deemed to confer authority to vote on any amendment of a resolution put to the meeting for which it is given as the proxy thinks fit. The instrument of proxy shall, unless the contrary is stated therein, be valid as well for any adjournment of the meeting as for the meeting to which it relates provided that the meeting was originally held within 12 months from such date.

The instrument appointing a proxy shall be in writing under the hand of the appointor or his attorney authorised in writing or if the appointor is a corporation either under its seal or under the hand of an officer, attorney or other person authorised to sign the same.

The instrument appointing a proxy and (if required by the Directors) the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, shall be delivered at the registered office of the Company (or at such other place as may be specified in the notice convening the meeting or in any notice of any adjournment or, in either case, in any document sent therewith) not less than 48 hours before the time appointed for holding the meeting or adjourned meeting at which the person named in the instrument proposes to vote or, in the case of a poll taken subsequently to the date of a meeting or adjourned meeting, not less than 48 hours before the time appointed for the taking of the poll and in default the instrument of proxy shall not be treated as valid. No instrument appointing a proxy shall be valid after the expiration of 12 months from the date named in it as the date of its execution. Delivery of any instrument appointing a proxy shall not preclude a member of the Company from attending and voting in person at the meeting or poll concerned and, in such event, the instrument appointing a proxy shall be deemed to be revoked.

2.17 Calls on shares and forfeiture of shares

The Directors may from time to time make calls upon the members of the Company in respect of any monies unpaid on their shares (whether on account of the nominal amount of the shares or by

APPENDIX III SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

way of premium or otherwise) and not by the conditions of allotment thereof made payable at fixed times and each member of the Company shall (subject to the Company serving upon him at least 14 days' notice specifying the time and place of payment and to whom such payment shall be made) pay to the person at the time and place so specified the amount called on his shares. A call may be revoked or postponed as the Directors may determine. A person upon whom a call is made shall remain liable on such call notwithstanding the subsequent transfer of the shares in respect of which the call was made.

A call may be made payable either in one sum or by instalments and shall be deemed to have been made at the time when the resolution of the Directors authorising the call was passed. The joint holders of a share shall be jointly and severally liable to pay all calls and instalments due in respect of such share or other monies due in respect thereof.

If a sum called in respect of a share shall not be paid before or on the day appointed for payment thereof, the person from whom the sum is due shall pay interest on the sum from the day appointed for payment thereof to the time of actual payment at such rate, not exceeding 15% per annum, as the Directors may determine, but the Directors shall be at liberty to waive payment of such interest wholly or in part.

If any call or instalment of a call remains unpaid on any share after the day appointed for payment thereof, the Directors may at any time during such time as any part thereof remains unpaid serve a notice on the holder of such shares requiring payment of so much of the call or instalment as is unpaid together with any interest which may be accrued and which may still accrue up to the date of actual payment.

The notice shall name a further day (not being less than 14 days from the date of service of the notice) on or before which, and the place where, the payment required by the notice is to be made, and shall state that in the event of non-payment at or before the time and at the place appointed, the shares in respect of which such call was made or instalment is unpaid will be liable to be forfeited.

If the requirements of such notice are not complied with, any share in respect of which such notice has been given may at any time thereafter, before payment of all calls or instalments and interest due in respect thereof has been made, be forfeited by a resolution of the Directors to that effect. Such forfeiture shall include all dividends and bonuses declared in respect of the forfeited shares and not actually paid before the forfeiture. A forfeited share shall be deemed to be the property of the Company and may be re-allotted, sold or otherwise disposed of.

A person whose shares have been forfeited shall cease to be a member of the Company in respect of the forfeited shares but shall, notwithstanding the forfeiture, remain liable to pay to the Company all monies which at the date of forfeiture were payable by him to the Company in respect of the shares, together with (if the Directors shall in their discretion so require) interest thereon at such rate not exceeding 15% per annum as the Directors may prescribe from the date of forfeiture until payment, and the Directors may enforce payment thereof without being under any obligation to make any allowance for the value of the shares forfeited, at the date of forfeiture.

APPENDIX III SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

2.18 Inspection of register of members

The register of members of the Company shall be kept in such manner as to show at all times the members of the Company for the time being and the shares respectively held by them. The register may, on 10 business days' notice (or on 6 business days' notice in the case of a rights issue) being given by advertisement published on the Stock Exchange's website, or, subject to the GEM Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association or by advertisement published in the newspapers, be closed at such times and for such periods as the Directors may from time to time determine either generally or in respect of any class of shares, provided that the register shall not be closed for more than 30 days in any year (or such longer period as the members of the Company may by ordinary resolution determine provided that such period shall not be extended beyond 60 days in any year).

Any register of members kept in Hong Kong shall during normal business hours (subject to such reasonable restrictions as the Directors may impose) be open to inspection by any member of the Company without charge and by any other person on payment of a fee of such amount not exceeding the maximum amount as may from time to time be permitted under the GEM Listing Rules as the Directors may determine for each inspection.

2.19 Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment, choice or election of a chairman which shall not be treated as part of the business of the meeting.

Two members of the Company present in person or by proxy shall be a quorum provided always that if the Company has only one member of record the quorum shall be that one member present in person or by proxy.

A corporation being a member of the Company shall be deemed for the purpose of the Articles of Association to be present in person if represented by its duly authorised representative being the person appointed by resolution of the directors or other governing body of such corporation or by power of attorney to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

The quorum for a separate general meeting of the holders of a separate class of shares of the Company is described in paragraph 2.4 above.

2.20 Rights of minorities in relation to fraud or oppression

There are no provisions in the Articles of Association concerning the rights of minority shareholders in relation to fraud or oppression.

APPENDIX III SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

2.21 Procedure on liquidation

If the Company shall be wound up, and the assets available for distribution amongst the members of the Company as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members of the Company in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively. If in a winding up the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed amongst the members of the Company in proportion to the capital paid up at the commencement of the winding up on the shares held by them respectively. The foregoing is without prejudice to the rights of the holders of shares issued upon special terms and conditions.

If the Company shall be wound up, the liquidator may with the sanction of a special resolution of the Company and any other sanction required by the Companies Law, divide amongst the members of the Company in specie or kind the whole or any part of the assets of the Company (whether they shall consist of property of the same kind or not) and may, for such purpose, set such value as he deems fair upon any property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members of the Company. The liquidator may, with the like sanction, vest the whole or any part of such assets in trustees upon such trusts for the benefit of the members of the Company as the liquidator, with the like sanction and subject to the Companies Law, shall think fit, but so that no member of the Company shall be compelled to accept any assets, shares or other securities in respect of which there is a liability.

2.22 Untraceable members

The Company shall be entitled to sell any shares of a member of the Company or the shares to which a person is entitled by virtue of transmission on death or bankruptcy or operation of law if: (a) all cheques or warrants, not being less than three in number, for any sums payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (b) the Company has not during that time or before the expiry of the three month period referred to in (d) below received any indication of the whereabouts or existence of the member; (c) during the 12 year period, at least three dividends in respect of the shares in question have become payable and no dividend during that period has been claimed by the member; and (d) upon expiry of the 12 year period, the Company has caused an advertisement to be published in the newspapers or subject to the GEM Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association, giving notice of its intention to sell such shares and a period of three months has elapsed since such advertisement and the Stock Exchange has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds it shall become indebted to the former member for an amount equal to such net proceeds.

APPENDIX III SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

SUMMARY OF CAYMAN ISLANDS COMPANY LAW AND TAXATION

1 INTRODUCTION

The Companies Law is derived, to a large extent, from the older Companies Acts of England, although there are significant differences between the Companies Law and the current Companies Act of England. Set out below is a summary of certain provisions of the Companies Law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of corporate law and taxation which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

2 INCORPORATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 11 January 2018 under the Companies Law. As such, its operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the size of its authorised share capital.

3 SHARE CAPITAL

The Companies Law permits a company to issue ordinary shares, preference shares, redeemable shares or any combination thereof.

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premia on those shares shall be transferred to an account called the “share premium account”. At the option of a company, these provisions may not apply to premia on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Law provides that the share premium account may be applied by a company, subject to the provisions, if any, of its memorandum and articles of association, in such manner as the company may from time to time determine including, but without limitation:

- (a) paying distributions or dividends to members;
- (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares;
- (c) in the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law);
- (d) writing-off the preliminary expenses of the company;
- (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; and

APPENDIX III SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

- (f) providing for the premium payable on redemption or purchase of any shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid the company will be able to pay its debts as they fall due in the ordinary course of business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

Subject to the detailed provisions of the Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. The manner of such a purchase must be authorised either by the articles of association or by an ordinary resolution of the company. The articles of association may provide that the manner of purchase may be determined by the directors of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any member of the company holding shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and to act in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

4 DIVIDENDS AND DISTRIBUTIONS

With the exception of section 34 of the Companies Law, there are no statutory provisions relating to the payment of dividends. Based upon English case law which is likely to be persuasive in the Cayman Islands in this area, dividends may be paid only out of profits. In addition, section 34 of the Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see paragraph 3 above for details).

5 SHAREHOLDERS' SUITS

The Cayman Islands courts can be expected to follow English case law precedents. The rule in *Foss v. Harbottle* (and the exceptions thereto which permit a minority shareholder to commence a class

APPENDIX III SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

action against or derivative actions in the name of the company to challenge (a) an act which is *ultra vires* the company or illegal, (b) an act which constitutes a fraud against the minority where the wrongdoers are themselves in control of the company, and (c) an action which requires a resolution with a qualified (or special) majority which has not been obtained) has been applied and followed by the courts in the Cayman Islands.

6 PROTECTION OF MINORITIES

In the case of a company (not being a bank) having a share capital divided into shares, the Grand Court of the Cayman Islands may, on the application of members holding not less than one-fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Grand Court shall direct.

Any shareholder of a company may petition the Grand Court of the Cayman Islands which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

Claims against a company by its shareholders must, as a general rule, be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

The English common law rule that the majority will not be permitted to commit a fraud on the minority has been applied and followed by the courts of the Cayman Islands.

7 DISPOSAL OF ASSETS

The Companies Law contains no specific restrictions on the powers of directors to dispose of assets of a company. As a matter of general law, in the exercise of those powers, the directors must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the company.

8 ACCOUNTING AND AUDITING REQUIREMENTS

The Companies Law requires that a company shall cause to be kept proper books of account with respect to:

- (a) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place;
- (b) all sales and purchases of goods by the company; and
- (c) the assets and liabilities of the company.

APPENDIX III SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

9 REGISTER OF MEMBERS

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as its directors may from time to time think fit. There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

10 INSPECTION OF BOOKS AND RECORDS

Members of a company will have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the company. They will, however, have such rights as may be set out in the company's articles of association.

11 SPECIAL RESOLUTIONS

The Companies Law provides that a resolution is a special resolution when it has been passed by a majority of at least two-thirds of such members as, being entitled to do so, vote in person or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given, except that a company may in its articles of association specify that the required majority shall be a number greater than two-thirds, and may additionally so provide that such majority (being not less than two-thirds) may differ as between matters required to be approved by a special resolution. Written resolutions signed by all the members entitled to vote for the time being of the company may take effect as special resolutions if this is authorised by the articles of association of the company.

12 SUBSIDIARY OWNING SHARES IN PARENT

The Companies Law does not prohibit a Cayman Islands company acquiring and holding shares in its parent company provided its objects so permit. The directors of any subsidiary making such acquisition must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the subsidiary.

13 MERGERS AND CONSOLIDATIONS

The Companies Law permits mergers and consolidations between Cayman Islands companies and between Cayman Islands companies and non-Cayman Islands companies. For these purposes, (a) "merger" means the merging of two or more constituent companies and the vesting of their undertaking, property and liabilities in one of such companies as the surviving company, and (b) "consolidation" means the combination of two or more constituent companies into a consolidated

APPENDIX III SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

company and the vesting of the undertaking, property and liabilities of such companies to the consolidated company. In order to effect such a merger or consolidation, the directors of each constituent company must approve a written plan of merger or consolidation, which must then be authorised by (a) a special resolution of each constituent company and (b) such other authorisation, if any, as may be specified in such constituent company's articles of association. The written plan of merger or consolidation must be filed with the Registrar of Companies of the Cayman Islands together with a declaration as to the solvency of the consolidated or surviving company, a list of the assets and liabilities of each constituent company and an undertaking that a copy of the certificate of merger or consolidation will be given to the members and creditors of each constituent company and that notification of the merger or consolidation will be published in the Cayman Islands Gazette. Dissenting shareholders have the right to be paid the fair value of their shares (which, if not agreed between the parties, will be determined by the Cayman Islands court) if they follow the required procedures, subject to certain exceptions. Court approval is not required for a merger or consolidation which is effected in compliance with these statutory procedures.

14 RECONSTRUCTIONS

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing 75% in value of shareholders or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the Grand Court of the Cayman Islands. Whilst a dissenting shareholder would have the right to express to the Grand Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Grand Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management and if the transaction were approved and consummated the dissenting shareholder would have no rights comparable to the appraisal rights (i.e. the right to receive payment in cash for the judicially determined value of his shares) ordinarily available, for example, to dissenting shareholders of United States corporations.

15 TAKE-OVERS

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90% of the shares which are the subject of the offer accept, the offeror may at any time within two months after the expiration of the said four months, by notice require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Grand Court of the Cayman Islands within one month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Grand Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

16 INDEMNIFICATION

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Cayman Islands courts to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

APPENDIX III SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

17 LIQUIDATION

A company may be placed in liquidation compulsorily by an order of the court, or voluntarily (a) by a special resolution of its members if the company is solvent, or (b) by an ordinary resolution of its members if the company is insolvent. The liquidator's duties are to collect the assets of the company (including the amount (if any) due from the contributories (shareholders)), settle the list of creditors and discharge the company's liability to them, rateably if insufficient assets exist to discharge the liabilities in full, and to settle the list of contributories and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

18 STAMP DUTY ON TRANSFERS

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

19 TAXATION

Pursuant to section 6 of the Tax Concessions Law (2018 Revision) of the Cayman Islands, the Company may obtain an undertaking from the Financial Secretary of the Cayman Islands:

- (a) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciations shall apply to the Company or its operations; and
- (b) in addition, that no tax to be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable:
 - (i) on or in respect of the shares, debentures or other obligations of the Company; or
 - (ii) by way of the withholding in whole or in part of any relevant payment as defined in section 6(3) of the Tax Concessions Law (2018 Revision).

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties that are applicable to any payments made by or to the Company.

20 EXCHANGE CONTROL

There are no exchange control regulations or currency restrictions in the Cayman Islands.

APPENDIX III SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

21 GENERAL

Maples and Calder (Hong Kong) LLP, the Company's legal advisers on Cayman Islands law, have sent to the Company a letter of advice summarising aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the section headed "Documents available for inspection" in Appendix V. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he/she is more familiar is recommended to seek independent legal advice.

A. FURTHER INFORMATION ABOUT THE GROUP**1. Incorporation of the Company**

The Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 11 January 2018. The Company has established its head office and principal place of business in Hong Kong at No. 6-13, Faerie Court, 80 Ko Shan Road, Hung Hom, Kowloon, Hong Kong and was registered as a registered non-Hong Kong company in Hong Kong under Part 16 of the Companies Ordinance on 23 March 2018. Li & Partners has been appointed as the authorised representative of the Company for the acceptance of service of process and notice on behalf of the Company. The address for service of process on the Company in Hong Kong is 22nd Floor, World-Wide House, 19 Des Voeux Road Central, Central, Hong Kong.

As the Company is incorporated in the Cayman Islands, it operates subject to the Companies Law and its constitution, which comprises the Memorandum and the Articles. A summary of various parts of the constitution and relevant aspects of the Companies Law is set out in Appendix III to this prospectus.

2. Changes in share capital of the Company

The following changes in the share capital of the Company had taken place since the date of incorporation and up to the Latest Practicable Date:

- (a) on 11 January 2018, the Company was incorporated in the Cayman Islands with limited liability with an authorised share capital of HK\$380,000 divided into 38,000,000 Shares of HK\$0.01 each, of which one Share was allotted and issued as fully paid at par to Mapcal Limited, the initial subscriber, and the Share was then transferred to MGH Limited on the same day. Upon completion of such allotment, MGH Limited held all the Shares, representing the then entire issued share capital of the Company; and
- (b) on 26 September 2018, the authorised share capital of the Company was increased from HK\$380,000 divided into 38,000,000 Shares to HK\$15,000,000 divided into 1,500,000,000 Shares by the creation of an additional 1,462,000,000 Shares pursuant to the written resolutions passed by the then sole Shareholder referred to in the sub-section headed “A. Further information about the Group — 5. Written resolutions of the sole Shareholder passed on 26 September 2018” in this appendix to this prospectus.

Immediately following completion of the Share Offer and the Capitalisation Issue (but taking no account of any Shares which may be issued upon exercise of any option that may be granted under the Share Option Scheme), the authorised share capital of the Company will be HK\$15,000,000 divided into 1,500,000,000 Shares and the issued share capital of the Company will be HK\$7,500,000 divided into 750,000,000 Shares, fully paid or credited as fully paid, with 750,000,000 Shares remaining unissued.

Other than pursuant to the general mandate to allot and issue Shares referred to in the sub-section headed “A. Further information about the Group — 5. Written resolutions of the sole Shareholder passed on 26 September 2018” in this appendix to this prospectus, the Directors do not have any present intention to issue any of the authorised but unissued share capital of the Company and, without prior approval of the Shareholders in general meeting, no issue of Shares will be made which would effectively alter the control of the Company.

Save as disclosed in the section headed “History, development and Reorganisation” in this prospectus, there has been no alteration in the share capital of the Company since its incorporation.

3. Corporate Reorganisation

In order to rationalise the Group’s corporate structure in preparation for the Listing, the Group underwent the Reorganisation. For further details, please refer to the section headed “History, development and Reorganisation — Reorganisation” in this prospectus.

4. Changes in share capital of the subsidiaries

The Company’s subsidiaries are referred to in the Accountants’ Report, the text of which is set out in Appendix I to this prospectus.

Save as disclosed in the section headed “History, development and Reorganisation” in this prospectus, there has been no alteration in the share capital of any of the subsidiaries of the Company within two years immediately prior to the date of this prospectus.

5. Written resolutions of the sole Shareholder passed on 26 September 2018

The following written resolutions were passed by the then sole Shareholder on 26 September 2018:

- (a) the Company approved and adopted the Memorandum and the Articles which will come into effect upon Listing, the terms of which are summarised in Appendix III to this prospectus;
- (b) the authorised share capital of the Company was increased from HK\$380,000,000 divided into 38,000,000 Shares to HK\$15,000,000 divided into 1,500,000,000 Shares by the creation of an additional of 1,462,000,000 Shares, all of which shall rank *pari passu* in all respects with the existing Shares;
- (c) conditional upon (i) the Listing Department of the Stock Exchange granting the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus; (ii) the Offer Price having been determined; (iii) the execution and delivery of the Underwriting Agreements; and (iv) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional and not being terminated in accordance

with the terms of the Underwriting Agreements or otherwise, in each case on or before such dates as may be specified in the Underwriting Agreements:

- (i) the Share Offer was approved and the Directors were authorised to (1) approve to allot and issue the Offer Shares subject to the terms and conditions stated in this prospectus; (2) implement the Share Offer and the Listing; and (3) do all things and execute all documents in connection with or incidental to the Share Offer and the Listing with such amendments or modifications (if any) as the Directors may consider necessary or appropriate;
- (ii) the rules of the Share Option Scheme were approved and adopted, and the Directors or any committee thereof established by the Board were authorised, at their sole discretion, to: (i) administer the Share Option Scheme; (ii) modify/amend the rules of the Share Option Scheme from time to time as such modification/amendments may be acceptable or not objected by, nor required to be approved by the Shareholders under applicable laws, rules and regulations, including the rules of the Stock Exchange; (iii) grant options to subscribe for Shares under the Share Option Scheme up to the limits referred to in the Share Option Scheme; (iv) allot, issue and deal with the Shares pursuant to the exercise of any option which may be granted under the Share Option Scheme; (v) make application at the appropriate time or times to the Stock Exchange for the listing of, and permission to deal in, any Shares or any part thereof that may hereafter from time to time be allotted and issued pursuant to the exercise of the options granted under the Share Option Scheme; and (vi) take all such actions as they consider necessary, desirable or expedient to implement or give effect to the Share Option Scheme; and
- (iii) conditional on the share premium account of the Company being credited as a result of the issue of the Offer Shares of the Share Offer, the Directors were authorised to capitalise HK\$562,499,999 standing to the credit of the share premium account of the Company by applying such sum in paying up in full at par 562,499,999 Shares for allotment and issue to holders of Shares whose names appear on the register of members of the Company at the close of business on the business day immediately preceding the Listing Date in proportion (as nearly as possible without involving fractions so that no fraction of a Share shall be allotted and issued) to their then existing holdings in the Company and so that the Shares to be allotted and issued pursuant to this resolution should rank *pari passu* in all respects with the then existing issued Shares and the Directors were authorised to give effect to such capitalisation;
- (d) a general unconditional mandate was granted to the Directors to allot, issue and deal with Shares (including the power to make or grant an offer or agreement, or grant securities or options which would or might require Shares to be allotted and issued), otherwise than by way of rights issue, or pursuant to any scrip dividend schemes or similar arrangements providing for the allotment and issue of Shares in lieu of the whole or part of a dividend on Shares in accordance with the Articles of Association or pursuant to the issue of Shares upon the exercise of any subscription or conversion rights attached to any warrants of the Company (if any) or pursuant to the exercise of options which may be granted under the

Share Option Scheme or any other option scheme(s) or similar arrangement for the time being adopted for the grant or issue to directors and/or officers and/or employees of the Company and/or any of its subsidiaries or rights to acquire Shares or pursuant to a specific authority granted by the Shareholders in general meeting, the Shares with an aggregate number not exceeding 20% of the aggregate number of Shares in issue and to be issued immediately following completion of the Share Offer but excluding any Shares which may be issued upon the exercise of the options that may be granted under the Share Option Scheme until the conclusion of the next annual general meeting of the Company, unless renewed by an ordinary resolution of the Shareholders in a general meeting, either unconditionally or subject to conditions or the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company or any applicable law of the Cayman Islands to be held or the passing of an ordinary resolution by the Shareholders in general meeting of the Company varying or revoking the authority given to the Directors, whichever occurs first.

For the purpose of above paragraph, “**Rights Issue**” means an offer of Shares in the capital of the Company, or offer or issue of warrants, options or other securities giving rights to subscribe for shares in the capital of the Company open for a period fixed by the Directors to holders of shares in the Company on the Company’s register of members on a fixed record date in proportion to their then holdings of shares in the Company (subject to such exclusion or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements, or having regard to any restrictions or obligations under the laws of, or the requirements of, or the expense or delay which may be involved in determining the existence or extent of any restrictions or obligations under the laws of, or the requirements of, any jurisdiction applicable to the Company, or any recognised regulatory body or any stock exchange applicable to the Company);

- (e) a general unconditional mandate was granted to the Directors to exercise all powers of the Company to repurchase Shares on the Stock Exchange, or on any other stock exchange on which the securities of the Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, such number of Shares with an aggregate number not exceeding 10% of the aggregate number of Shares in issue immediately following completion of the Share Offer but excluding any Shares which may be issued upon the exercise of the options that may be granted under the Share Option Scheme until the conclusion of the next annual general meeting of the Company, unless renewed by an ordinary resolution of the Shareholders in a general meeting, either unconditionally or subject to conditions or the expiration of the period within which the next annual general meeting of the Company is required by the Articles of Association of the Company or any applicable law of the Cayman Islands to be held or the passing of an ordinary resolution by the Shareholders in general meeting of the Company varying or revoking the authority given to the Directors, whichever occurs first; and
- (f) the extension of the general mandate to allot, issue and deal with Shares as mentioned in paragraph (d) above by the addition to the aggregate number of the share capital of the Company which may be allotted or agreed conditionally or unconditionally to be allotted by the Directors pursuant to such general mandate of an amount representing the aggregate

number of the share capital of the Company repurchased by the Company pursuant to paragraph (e) above, provided that such extended amount shall not exceed 10% of the aggregate number of Shares in issue immediately following the Share Offer but excluding any Shares which may be issued upon the exercise of the options that may be granted under the Share Option Scheme until the conclusion of the next annual general meeting of the Company, unless renewed by an ordinary resolution of the Shareholders in a general meeting, either unconditionally or subject to conditions or the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company or any applicable law of the Cayman Islands to be held or the passing of an ordinary resolution by the Shareholders in general meeting of the Company varying or revoking the authority given to the Directors, whichever occurs first, be and is hereby approved.

6. Repurchase of the Shares

This paragraph contains information required by the Stock Exchange to be included in this prospectus concerning the repurchase by the Company of its own securities.

(a) *Provisions of the GEM Listing Rules*

The GEM Listing Rules permit companies with a primary listing on the Stock Exchange to repurchase their securities on the Stock Exchange subject to certain restrictions. Such restrictions include:

(i) *Shareholders' approval*

All proposed repurchases of Shares must be approved in advance by an ordinary resolution of the Shareholders in a general meeting, either by way of general mandate or by specific approval of a particular transaction.

Note: Pursuant to the written resolutions passed on 26 September 2018 by the then sole Shareholder, a general unconditional mandate (the “**Repurchase Mandate**”) was granted to the Directors to exercise all powers of the Company to repurchase on the Stock Exchange, or on any other stock exchange on which the securities of the Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, such number of Shares with an aggregate number not exceeding 10% of the aggregate number of Shares in issue or to be issued immediately following completion of the Share Offer and the Capitalisation Issue (without taking into account of any Shares which may be allotted and issued pursuant to the exercise of the options that may be granted under the Share Option Scheme), at any time until the conclusion of the next annual general meeting of the Company, the expiration of the period within which the next annual general meeting of the Company is required by any applicable laws or the Articles to be held or when such mandate is revoked or varied by an ordinary resolution of the then Shareholders in general meeting, whichever occurs first.

(ii) *Core connected persons*

The GEM Listing Rules prohibit a company from knowingly repurchasing securities on the Stock Exchange from a “core connected person”, that is, a director, chief executive or substantial shareholder of the company or any of its subsidiaries or his or her close associates and a core connected person shall not knowingly sell his securities to such company.

(iii) *Source of funds*

Repurchases must be funded out of funds legally available for the purpose in accordance with the Memorandum, the Articles, the GEM Listing Rules and the Companies Law. A listed company is prohibited from repurchasing its own shares on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange.

Under the laws of the Cayman Islands, any repurchase by the Company may be made out of profits or share premium of the Company or out of the proceeds of a fresh issue of Shares made for the purpose of the repurchase or, subject to the Companies Law, out of capital and, in the case of any premium payable on the repurchase, out of the profits of the Company or from sums standing the credit of the share premium account of the Company or, subject to the Companies Law, out of capital.

(iv) *Status of repurchased Shares*

The listing of all repurchased Shares (whether offered on the Stock Exchange or otherwise) on GEM will automatically be cancelled and the certificates for those Shares shall be cancelled and destroyed.

(v) *Trading restrictions*

The total number of shares which a listed company may repurchase on GEM is the number of shares representing up to a maximum of 10% of the aggregate number of shares of that company in issue. A company may not issue or announce a proposed issue of new securities for a period of 30 days immediately following a repurchase (other than an issue of securities pursuant to an exercise of warrants, share options or similar instruments requiring the company to issue securities which were outstanding prior to such repurchase) without the prior approval of the Stock Exchange. In addition, a listed company is prohibited from repurchasing its shares on the Stock Exchange if the purchase price is 5% or higher than the average closing market price for the five preceding trading days on which its shares were traded on GEM. The GEM Listing Rules also prohibit a listed company from repurchasing its securities if the repurchase would result in the number of listed securities which are in the hands of the public falling below the relevant minimum prescribed percentage as required by the Stock Exchange. A company is required to procure that the broker appointed by it to effect a repurchase of securities discloses to the Stock Exchange such information with respect to the repurchase as the Stock Exchange may require.

(vi) *Suspension of repurchase*

A listed company may not make any repurchase of securities on the Stock Exchange at any time after inside information has come to its knowledge until the information is made publicly available. In particular, during the period of one month immediately preceding the earlier of (a) the date of the board meeting (as such date is first notified to the Stock Exchange in accordance

with the GEM Listing Rules) for the approval of a listed company's results for any year, half-year, quarter-year or any other interim period (whether or not required under the GEM Listing Rules) and (b) the deadline for publication of an announcement of a listed company's results for any year, half-year or quarter-year under the GEM Listing Rules, or any other interim period (whether or not required under the GEM Listing Rules), and ending on the date of the results announcement, the listed company may not repurchase its shares on the Stock Exchange other than in exceptional circumstances. In addition, the Stock Exchange may prohibit a repurchase of securities on GEM if a listed company has breached the GEM Listing Rules.

(vii) *Reporting requirements*

Certain information relating to repurchases of securities on the Stock Exchange or otherwise must be reported to the Stock Exchange not later than 30 minutes before the earlier of the commencement of the morning trading session or any pre-opening session on the following business day. In addition, a listed company's annual report is required to disclose details regarding repurchases of securities made during the year, including a monthly analysis of the number of securities repurchased, the purchase price per share or the highest and lowest price paid for all such repurchases, where relevant, and the aggregate prices paid.

(b) *Reasons for repurchase*

The Directors believe that it is in the best interests of the Company and the Shareholders for the Directors to have a general authority from the Shareholders to enable the Company to repurchase Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share of the Company and its subsidiaries and/or the earnings per Share and will only be made when the Directors believe that such repurchases will benefit the Company and the Shareholders.

(c) *Funding of repurchase*

In repurchasing Shares, the Company may only apply funds legally available for such purpose in accordance with the Memorandum, the Articles, the GEM Listing Rules and the Companies Law and other applicable laws of the Cayman Islands.

The exercise in full of the Repurchase Mandate, on the basis of 750,000,000 Shares in issue immediately after the listing of the Shares, would result in up to 75,000,000 Shares being repurchased by the Company during the period in which the Repurchase Mandate remains in force.

There might be a material adverse impact on the working capital and/or gearing position of the Company (as compared with the position disclosed in this prospectus) in the event that the Repurchase Mandate is exercised in full. However, the Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements of the Company and its subsidiaries or the gearing levels which, in the opinion of the Directors, are from time to time appropriate for the Company and its subsidiaries.

(d) *General*

None of the Directors or, to the best of their knowledge having made all reasonable enquiries, any of their close associates have any present intention to sell any Shares to the Company or its subsidiaries.

The 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 and the applicable laws of the Cayman Islands.

If, as a result of a share repurchase, a Shareholder's proportionate interest in the voting rights of the Company increases, such increase will be treated as an acquisition for the purpose of the Takeovers Code. Accordingly, a Shareholder or a group of Shareholders acting in concert (within the meaning of the Takeovers Code) may obtain or consolidate control of the Company and 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 aforesaid, the Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchase made pursuant to the Repurchase Mandate.

The 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 falls below 25% of the total number of Shares in issue.

The Company had not repurchased any Shares (whether on the Stock Exchange or otherwise) in the six months prior to the Latest Practicable Date.

No core connected person has notified the Company that he or she or it has a present intention to sell Shares to the Company, or has undertaken not to do so, if the Repurchase Mandate is exercised.

7. Particulars of the Group's principal subsidiaries

The Company has the following principal subsidiaries incorporated in Hong Kong and the PRC, the basic information of which as at the Latest Practicable Date is set out as follows:

CFH Limited

Date of incorporation of the company	: 7 January 2000
Nature of the company	: Private limited company
Address of registered office of the company	: No. 6-13, Faerie Court, 80 Ko Shan Road, Hung Hom, Kowloon, Hong Kong
Director of the company	: Mr. Fu, Ms. Cheung, Ms. Fu
Shareholder of the company	: GH Limited
Attributable interest of the Group	: 100%

CFJ Limited

Date of incorporation of the company	: 14 March 1997
Nature of the company	: Private limited company
Address of registered office of the company	: Shop No. 2, G/F, Cheuk Ming Building, 22-26 Chuen Lung Street, Tsuen Wan, N.T., Hong Kong
Director of the company	: Mr. Fu, Ms. Cheung, Ms. Fu
Shareholder of the company	: GH Limited, Mr. Chu Yau Tak
Attributable interest of the Group	: 99.999%

CFJM Limited

Date of incorporation of the company	: 7 November 2003
Nature of the company	: Private limited company
Address of registered office of the company	: No. 6-13, Faerie Court, 80 Ko Shan Road, Hung Hom, Kowloon, Hong Kong
Director of the company	: Mr. Fu, Ms. Cheung, Ms. Fu
Shareholder of the company	: GH Limited
Attributable interest of the Group	: 100%

KJJ Limited

Date of incorporation of the company	: 12 May 2012
Nature of the company	: Private limited company
Address of registered office of the company	: Room 8, G/F, Faerie Court, 80 Ko Shan Road, Hung Hom, Kowloon, Hong Kong
Director of the company	: Mr. Fu
Shareholder of the company	: DGH Limited
Attributable interest of the Group	: 100%

WR Limited

Date of incorporation of the company	: 29 November 2011
Nature of the company	: Private limited company
Address of registered office of the company	: Room 8, G/F, Faerie Court, 80 Ko Shan Road, Hung Hom, Kowloon, Hong Kong
Director of the company	: Mr. Fu
Shareholder of the company	: DGH Limited
Attributable interest of the Group	: 100%

ZHJ Limited

Date of incorporation of the company	: 18 November 2011
Nature of the company	: Limited liability company
Address of registered office of the company	: Floor 5, Block 9, Sha Tau Kok Trade Zone, Shen Sha Road, Yantian District, Shenzhen, the PRC
Legal representative of the company	: Ms. Cheung
Shareholder of the company	: CFJM Limited
Attributable interest of the Group	: 100%

B. FURTHER INFORMATION ABOUT THE BUSINESS**1. Summary of material contracts**


The following contracts (not being contracts entered into in the ordinary course of business) were entered into by the Company or its subsidiaries within the two years preceding the date of this prospectus and are or may be material:

- (i) the Deed of Non-Competition;
- (ii) the Deed of Indemnity; and
- (iii) the Public Offer Underwriting Agreement.

2. Intellectual property rights of the Group

(a) *Trademark*

As at the Latest Practicable Date, the Group had registered the following trademark which, in the opinion of the Directors, is material to the business:

<u>Trademark</u>	<u>Class No.</u>	<u>Trade Mark No.</u>	<u>Date of registration</u>	<u>Place of registration</u>
	14,35	302175336	29 February 2012	Hong Kong

(b) *Domain names*

As at the Latest Practicable Date, the Group had registered and maintained the following domain names which are material to the business:

<u>Domain Name</u>	<u>Registration Date</u>	<u>Expiry Date</u>	<u>Registrant</u>
<u>www.dghcl.com</u>	23 March 2018	23 March 2020	CFH Limited
<u>www.chongfaijewellery.com</u>	28 July 2009	28 July 2019	CFH Limited

C. DISCLOSURE OF INTERESTS

1. **Interests and short positions of the Directors and chief executive in the shares, underlying shares or debentures of the Company and its associated corporations**

Immediately following completion of the Share Offer and the Capitalisation Issue, based on the information available on the Latest Practicable Date, the interests or short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of part XV of the SFO) which will have to be notified to the Company and the Stock Exchange pursuant to 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 which will be required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein or which will be required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, will be as follows:

Name	Capacity	Number of Shares¹ upon Listing	Percentage of shareholding upon Listing
Mr. Fu ²	Interest in controlled corporation	562,500,000	75%
Ms. Fu ²	Interest in controlled Corporation	562,500,000	75%
Ms. Cheung ^{2,3}	Interest in controlled corporation, interest of spouse	562,500,000	75%

Notes:

1. All interests stated are long positions.
2. Mr. Fu, Ms. Fu and Ms. Cheung collectively are interested in the entire issued share capital of MGH Limited and they are therefore deemed to be interested in the Shares held by MGH Limited by virtue of the SFO.
3. Ms. Cheung is the spouse of Mr. Fu and she is therefore deemed to be interested in the Shares held by Mr. Fu by virtue of the SFO.

Save as disclosed above, based on the information available on the Latest Practicable Date, immediately following completion of the Share Offer and the Capitalisation Issue, none of the Directors or chief executive of the Company has any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he will be taken or deemed to have under the SFO), or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which will be required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors to be notified to the Company and the Stock Exchange once the Shares are listed.

2. Interests and short positions of substantial shareholders in the Shares or underlying shares

Information on person(s), not being Directors or chief executive of the Company, who (based on the information available on the Latest Practicable Date) will have, immediately following the Share Offer and the Capitalisation Issue, the interests or short positions in the Shares or underlying shares which will fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly or indirectly, be interested in 10% or more of the issued voting Shares is set out below:

<u>Name</u>	<u>Capacity</u>	<u>Number of Shares¹ upon Listing</u>	<u>Percentage of shareholding upon Listing</u>
MGH Limited ²	Beneficial Interest	562,500,000	75%

Notes:

- All interests stated are long positions.
- The entire issued share capital of MGH Limited is legally and beneficially owned by Mr. Fu, Ms. Fu and Ms. Cheung who are deemed to be interested in the Shares held by MGH Limited by virtue of the SFO.

Save as set out above, based on the information available on the Latest Practicable Date, taking no account of any Shares which may be taken up under the Share Offer, the Directors are not aware of any person (not being a Director or chief executive of the Company) who will, immediately following the completion of the Share Offer and the Capitalisation Issue, be interested, directly or indirectly, in an interest or short position in the Shares or underlying shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly or indirectly, be interested in 10% or more of the issued voting Shares.

3. Interests of the substantial shareholders of any member of the Group (other than the Company)

The Directors are not aware of any person (not being a Director or chief executive of the Company) who will, immediately following the completion of the Share Offer and the Capitalisation Issue, be interested, directly or indirectly, in 10% or more of the issued voting shares of any member of the Group (other than the Company) or any options in respect of the share capital of any member of the Group (other than the Company).

D. FURTHER INFORMATION ABOUT THE DIRECTORS**(a) Particulars of Directors' service contracts**

Each of the executive Directors, namely Mr. Fu, Ms. Fu and Ms. Cheung, has entered into a service agreement with the Company for an initial term of three years commencing from the Listing Date. During the initial term, either party to the service agreement shall be entitled to terminate the service agreement by serving not less than three months' written notice upon the other side.

Each of the Group's independent non-executive Directors, namely Mr. Chan, Mr. Wong and Mr. Tony Chan has entered into a letter of appointment with the Company for an initial term of three years commencing on the Listing Date. During the initial term, either party to the letter of appointment shall be entitled to terminate the letter of appointment by serving not less than three months' written notice upon the other side.

Each of the Directors is entitled to the respective basic salary set out below (subject to annual adjustment after consultation with remuneration committee at the discretion of the Directors, and taking no account of the discretionary bonus they may be entitled to).

The Company shall reimburse the Directors, upon production of valid receipts and/or vouchers if requested, all necessary and reasonable expenses (including travel, hotel, meals and other out-of-pocket expenses) properly incurred by the Directors in the performance of their duties under the service agreements.

The basic annual salaries/service fees (excluding discretionary bonus) of each of the Directors under the service agreements are as follows:

Name	Annual basic salary/service fee
<i>Executive Director</i>	
Mr. Fu	HK\$2,000,000
Ms. Fu	HK\$ 400,000
Ms. Cheung	HK\$ 400,000
<i>Independent non-executive Director</i>	
Mr. Chan	HK\$ 120,000
Mr. Wong	HK\$ 120,000
Mr. Tony Chan	HK\$ 120,000

None of the Directors has or is proposed to have a service contract with the Company or any of its subsidiaries other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation).

(b) Directors' remuneration during the Track Record Period

The Company's policies concerning remuneration of executive Directors are (i) the amount of remuneration is determined on the basis of the relevant Director's experience, responsibility, workload and the time devoted to the Company; and (ii) non-cash benefits may be provided to the Directors under their remuneration package.

For the years ended 31 March 2017 and 2018, the aggregate of the remuneration paid and benefits in kind granted to the Directors by the Company and its subsidiaries was approximately HK\$1.9 million and HK\$2.1 million, respectively.

Save as disclosed in the section headed "Directors and senior management — Emolument of Directors and management" in this prospectus, for the years ended 31 March 2017 and 2018, no other emoluments have been paid or are payable by the Company to the Directors. Under the arrangements currently in force, the Company estimates that the aggregate remuneration payable to, and benefits in kind receivable by, the Directors (including fee, salaries, contributions to pension scheme and other allowances and benefits in kind) by the Company for the year ending 31 March 2019 would be approximately HK\$3.0 million.

There has been no arrangement under which a Director has waived or agreed to waive any emolument for the years ended 31 March 2017 and 2018.

(c) Related party transactions

Save as disclosed in the section headed "Financial information — Related party transactions" in this prospectus and Note 29 to the Accountants' Report included in Appendix I to this prospectus, the Group had not engaged in any other material transactions with its related parties.

E. DISCLAIMER

Save as aforesaid and saved as disclosed elsewhere in this prospectus:

- (i) none of the Directors has any direct or indirect interest in the promotion of, or in any assets which have been, within the two years immediately preceding the date of this prospectus, acquired or disposed of by or leased to any member of the Group;
- (ii) none of the Directors or the chief executive of the Company, as at the Latest Practicable Date, had any interest or short position in any share, underlying share and debenture of the Company or any of its associated corporations (within the meaning of the SFO), which will have to be notified to the Company and the Stock Exchange once the Shares are listed on the Stock Exchange pursuant to section 352 of the SFO, to be entered in the register referred to therein once the Shares are listed on the Stock Exchange, or which will be required, pursuant to Chapter 5 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange once the Shares are listed on the Stock Exchange;

- (iii) none of the experts referred to in the sub-section headed “F. Other information — 12. Consent of experts” of this appendix has any shareholding in any member of the Group or the right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group save as contemplated under the Underwriting Agreements;
- (iv) none of the experts referred to in the sub-section headed “F. Other information — 12. Consent of experts” of this appendix has any direct or indirect interest in the promotion of, or in any assets which have been, within the two years immediately preceding the date of this prospectus, acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group;
- (v) taking no account of Shares which may be pursuant to options which may be granted under the Share Option Scheme, none of the Directors knows of any person (not being a Director or chief executive of the Company) who will, immediately following completion of the Share Offer, have any interest in Shares or underlying shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will be interested, directly or indirectly, in 10% or more of the issued voting Shares of any other member of the Group;
- (vi) none of the Directors nor any of the experts listed in the sub-section headed “F. Other information — 12. Consent of experts” of this appendix is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of the Group taken as a whole; and
- (vii) the Directors confirm that none of the Directors, their respective close associates or Shareholders who are interested in 5% or more of the issued share capital of the Company have any interest in the five largest customers or the five largest suppliers of the Group.

F. OTHER INFORMATION

1. Share Option Scheme

The following is a summary of the principal terms of the Share Option Scheme conditionally adopted by the written resolutions of the sole Shareholder passed on 26 September 2018. The terms of the Share Option Scheme are in compliance with the provisions of Chapter 23 of the GEM Listing Rules.

(a) Purpose

The Share Option Scheme is a share incentive scheme and is established to recognise and acknowledge the contributions the Eligible Participants (as defined in paragraph (b) below) have had or may have made to the Group. The Share Option Scheme will provide the Eligible Participants an opportunity to have a personal stake in the Company with the view to achieving the following objectives:

- (i) motivating the Eligible Participants to optimise their performance and efficiency for the benefit of the Group; and
- (ii) attracting and retaining or otherwise maintaining on-going business relationships with the Eligible Participants whose contributions are or will be beneficial to the long term growth of the Group.

(b) Who may join

The Board may, at its discretion, offer to grant an option to subscribe for such number of new Shares as the Board may determine at an exercise price determined in accordance with paragraph (f) below to the following persons (the “Eligible Participants”):

- (i) any full-time or part-time employees, executives or officers of the Company or any of its subsidiaries;
- (ii) any Directors (including non-executive Directors and independent non-executive Directors) of the Company or any of its subsidiaries;
- (iii) any advisers, consultants, suppliers, customers and agents to the Company or any of its subsidiaries; and
- (iv) such other persons who, in the sole opinion of the Board, will contribute or have contributed to the Group, the assessment criteria of which are:
 - (aa) contribution to the development and performance of the Group;
 - (bb) quality of work performed for the Group;
 - (cc) initiative and commitment in performing his/her duties; and
 - (dd) length of service or contribution to the Group.

(c) *Acceptance of an offer of options*

An option shall be deemed to have been granted and accepted by the grantee and to have taken effect when the duplicate offer document constituting acceptance of the options duly signed by the grantee, together with a remittance in favour of the Company of HK\$1.00 by way of consideration for the grant thereof, is received by the Company on or before the relevant acceptance date. Such payment shall in no circumstances be refundable. Any offer to grant an option to subscribe for Shares may be accepted in respect of less than the number of Shares for which it is offered provided that it is accepted in respect of a board lot for dealing in Shares on the Stock Exchange or an integral multiple thereof and such number is clearly stated in the duplicate offer document constituting acceptance of the option. To the extent that the offer to grant an option is not accepted by any prescribed acceptance date, it shall be deemed to have been irrevocably declined.

Subject to paragraphs (l), (m), (n), (o) and (p), an option shall be exercised in whole or in part and, other than where it is exercised to the full extent outstanding, shall be exercised in integral multiples of such number of Shares as shall represent one board lot for dealing in Shares on the Stock Exchange for the time being, by the grantee by giving notice in writing to the Company stating that the option is thereby exercised and the number of Shares in respect of which it is exercised. Each such notice must be accompanied by a remittance for the full amount of the exercise price for the Shares in respect of which the notice is given.

Within 21 days after receipt of the notice and the remittance and, where appropriate, receipt of the certificate by the auditors to the Company or the approved independent financial adviser as the case may be pursuant to paragraph (r), the Company shall allot and issue the relevant number of Shares to the grantee credited as fully paid and issue to the grantee certificates in respect of the Shares so allotted.

The exercise of any option shall be subject to the Shareholders in general meeting approving any necessary increase in the authorised share capital of the Company.

(d) *Maximum number of Shares*

The maximum number of Shares in respect of which options may be granted (including Shares in respect of which options, whether exercised or still outstanding, have already been granted) under the Share Option Scheme and under any other share option schemes of the Company must not in aggregate exceed 10% of the total number of Shares in issue on the Listing Date, being 75,000,000 Shares (the “**Scheme Limit**”), excluding for this purpose Shares which would have been issuable pursuant to options which have lapsed in accordance with the terms of the Share Option Scheme (or

any other share option schemes of the Company). Subject to the issue of a circular by the Company and the approval of the Shareholders in general meeting and/or such other requirements prescribed under the GEM Listing Rules from time to time, the Board may:

- (i) renew this limit at any time to 10% of the Shares in issue (the “**New Scheme Limit**”) as at the date of the approval by the Shareholders in general meeting; and/or
- (ii) grant options beyond the Scheme Limit to Eligible Participants specifically identified by the Board. The circular issued by the Company to the Shareholders shall contain a generic description of the specified Eligible Participants who may be granted such options, the number and terms of the options to be granted, the purpose of granting options to the specified Eligible Participants with an explanation as to how the options serve such purpose, the information required under Rule 23.02(2)(d) and the disclaimer required under Rule 23.02(4) of the GEM Listing Rules.

Notwithstanding the foregoing, the Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Company at any time shall not exceed 30% of the Shares in issue from time to time (the “**Maximum Limit**”). No options shall be granted under any schemes of the Company (including the Share Option Scheme) if this will result in the Maximum Limit being exceeded. The maximum number of Shares in respect of which options may be granted shall be adjusted, in such manner as the auditors of the Company or an approved independent financial adviser shall certify to be appropriate, fair and reasonable in the event of any alteration in the capital structure of the Company in accordance with paragraph (r) below whether by way of capitalisation issue, rights issue, consolidation, sub-division of shares or reduction of the share capital of the Company but in no event shall exceed the limit prescribed in this paragraph.

(e) *Maximum number of options to any one individual*

The total number of Shares issued and which may fall to be issued upon exercise of the options granted under the Share Option Scheme and any other share option schemes of the Company (including both exercised, outstanding options and Shares which were the subject of options which have been granted and accepted under the Share Option Scheme or any other scheme of the Company but subsequently cancelled (the “**Cancelled Shares**”) to each Eligible Participant in any 12-month period up to the date of grant shall not exceed 1% of the Shares in issue as at the date of grant. Any further grant of options in excess of this 1% limit shall be subject to:

- (i) the issue of a circular by the Company containing the identity of the Eligible Participant, the numbers of and terms of the options to be granted (and options previously granted to such participant) the information as required under Rule 23.02(2)(d) and the disclaimer required under Rule 23.02(4) of the GEM Listing Rules; and

(ii) the approval of the Shareholders in general meeting and/or other requirements prescribed under the GEM Listing Rules from time to time with such Eligible Participant and his/her close associates (as defined in the GEM Listing Rules, or his/her associates if the Eligible Participant is a connected person) abstaining from voting. The numbers and terms (including the exercise price) of options to be granted to such participant must be fixed before the Shareholders' approval and the date of the Board meeting at which the Board proposes to grant the options to such Eligible Participant shall be taken as the date of grant for the purpose of calculating the subscription price of the Shares. The Board shall forward to such Eligible Participant an offer document in such form as the Board may from time to time determine or, alternatively, documents accompanying the offer document which state, among other things:

(aa) the Eligible Participant's name, address and occupation;

(bb) the date on which an option is offered to an Eligible Participant which must be a date on which the Stock Exchange is open for the business of dealing in securities;

(cc) the date upon which an offer for an option must be accepted;

(dd) the date upon which an option is deemed to be granted and accepted in accordance with paragraph (c);

(ee) the number of Shares in respect of which the option is offered;

(ff) the subscription price and the manner of payment of such price for the Shares on and in consequence of the exercise of the option;

(gg) the date of the notice given by the grantee in respect of the exercise of the option; and

(hh) the method of acceptance of the option which shall, unless the Board otherwise determines, be as set out in paragraph (c).

(f) ***Price of Shares***

The subscription price of a Share in respect of any particular option granted under the Share Option Scheme shall be such price as the Board in its absolute discretion shall determine, save that such price will not be less than the highest of:

(i) the closing price of the Shares as stated in the Stock Exchange's daily quotation sheets on the date of grant, which must be a day on which the Stock Exchange is open for the business of dealing in securities;

(ii) the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and

(iii) the nominal value of a Share.

(g) *Granting options to connected persons*

Any grant of options to a Director, chief executive or Substantial Shareholder (as defined in the GEM Listing Rules) of the Company or any of their respective associates (as defined in the GEM Listing Rules) is required to be approved by the independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the options). If the Board proposes to grant options to a substantial shareholder or any independent non-executive Director or their respective associates (as defined in the GEM Listing Rules) which will result in the number of Shares issued and to be issued upon exercise of options granted and to be granted (including options exercised, cancelled and outstanding) such person in the 12-month period up to and including the date of such grant:

- (i) representing in aggregate over 0.1% of the Shares in issue; and
- (ii) having an aggregate value in excess of HK\$5 million or such other sum as may be from time to time provided under the GEM Listing Rules, based on the closing price of the Shares as stated in the daily quotation sheets of the Stock Exchange at the date of each grant,

such further grant of options will be subject to the approval of the independent non-executive Directors as referred to in this paragraph, the issue of a circular by the Company and the approval of the Shareholders in general meeting on a poll at which the grantee, his/her associates and all core connected persons (as defined in the GEM Listing Rules) of the Company shall abstain from voting in favour, and/or such other requirements prescribed under the GEM Listing Rules from time to time. Any vote taken at the meeting to approve the grant of such options shall be taken as a poll.

The circular to be issued by the Company to the Shareholders pursuant to the above paragraph shall contain the following information:

- (i) the details of the number and terms (including the exercise price) of the options to be granted to each selected Eligible Participant, which must be fixed before the Shareholders' meeting and the date of the Board meeting for proposing such further grant shall be taken as the date of grant for the purpose of calculating the exercise price of such options;
- (ii) a recommendation from the independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the options) to the independent Shareholders as to voting;
- (iii) the information required under Rule 23.02(2)(c) and (d) and the disclaimer required under Rule 23.02(4) of the GEM Listing Rules; and
- (iv) the information required under Rule 2.28 of the GEM Listing Rules.

(h) *Restrictions on the times of grant of options*

The Company may not grant any options after inside information has come to its knowledge until it has been announced the information pursuant to the requirements of the GEM Listing Rules. In particular, no options may be granted during the period commencing one month immediately preceding the earlier of:

- (i) the date of the Board meeting (such date to first be notified to the Stock Exchange in accordance with the GEM Listing Rules) for the approval of the Company's results for any year, half-year, quarterly or other interim period (whether or not required under the GEM Listing Rules); and
- (ii) the deadline for the Company to publish an announcement of the results for any year, or half-year, or quarterly or other interim period (whether or not required under the GEM Listing Rules); and ending on the date of actual publication of the results announcement.

(i) *Rights are personal to grantee*

An option is personal to the grantee and shall not be assignable. No grantee shall in any way sell, transfer, charge, mortgage, encumber or otherwise dispose of or create any interest (legal or beneficial) in favour of any third party over or in relation to any option or attempt so to do (save that the grantee may nominate a nominee in whose name the Shares issued pursuant to the Share Option Scheme may be registered). Any breach of the foregoing shall entitle the Company to cancel any outstanding options or any part thereof granted to such grantee.

(j) *Time of exercise of option and duration of the Share Option Scheme*

An option may be exercised in accordance with the terms of the Share Option Scheme at any time after the date upon which the option is deemed to be granted and accepted and prior to the expiry of ten years from that date. The period during which an option may be exercised will be determined by the Board in its absolute discretion, save that no option may be exercised more than ten years after it has been granted. No option may be granted more than 10 years after the date of approval of the Share Option Scheme by the Shareholders of the Company (the "**Adoption Date**"). Subject to earlier termination by the Company in general meeting or by the Board, the Share Option Scheme shall be valid and effective for a period of 10 years from the Adoption Date.

(k) *Performance target*

A grantee may be required to achieve any performance targets as the Board may then specify in the grant before any options granted under the Share Option Scheme can be exercised.

(l) *Rights on ceasing employment/death*

If the grantee of an option ceases to be an Eligible Participant:

- (i) by any reason other than death, ill-health, injury, disability or termination of his/her relationship with the Company and/or any of its subsidiaries on one or more of the grounds specified in paragraph (m) below, the grantee may exercise the option up to the entitlement of the grantee as at the date of cessation (to the extent not already exercised) within a period of one month (or such longer period as the Board may determine) from such cessation which date shall be the last actual working day with the Company or the relevant subsidiary whether salary is paid in lieu of notice or not, failing which it will lapse (or such longer period as the Company may determine); or
- (ii) by reason of death, ill-health, injury or disability (all evidenced to the satisfaction of the Board) and none of the events which would be a ground for termination of his relationship with the Company and/or any of its subsidiaries under paragraph (m) has occurred, the grantee or his personal representative(s) may exercise the option within a period of 12 months (or such longer period as the Board may determine) from the date of cessation of being an Eligible Participant or death to exercise the Options in full (to the extent not already exercised).

(m) *Rights on dismissal*

If the grantee of an option ceases to be an Eligible Participant on the grounds that he has been guilty of serious misconduct, or has committed any act of bankruptcy or is unable to pay his/her debts has become insolvent or has made any arrangements or has compromised with his/her creditors generally, or has been convicted of any criminal offence involving his/her integrity or honesty, his/her option will lapse and not be exercisable after the date of termination of his/her employment.

(n) *Rights on takeover*

If a general offer is made to all the Shareholders (or all such Shareholders other than the offeror and/or any person controlled by the offeror and/or any person acting in concert with the offeror (as defined in the Takeovers Code)) and such offer becomes or is declared unconditional during the option period of the relevant option, the grantee of an option shall be entitled to exercise the option in full (to the extent not already exercised) at any time within 14 days after the date on which the offer becomes or is declared unconditional.

(o) *Rights on winding-up*

In the event that a notice is given by the Company to its members to convene a general meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind-up the Company, the Company shall forthwith give notice thereof to all grantees and thereupon, each grantee (or his legal personal representative(s)) shall be entitled to exercise all or any of his options (to the extent not already exercised) at any time not later than two business days prior to the proposed general meeting of the Company referred to above by giving notice in writing to the Company, 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 the Company 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, allot the relevant Shares to the grantee credited as fully paid.

(p) ***Rights on compromise or arrangement between the Company and its members or creditors***

If a compromise or arrangement between the Company and its members or creditors is proposed for the purposes of a scheme for the reconstruction of the Company or its amalgamation with any other companies pursuant to the laws of the jurisdiction in which the Company was incorporated, the Company shall give notice to all the grantees of the options on the same day as it gives notice of the meeting to its members or creditors summoning the meeting to consider such a compromise or arrangement and any grantee may by notice in writing to the Company accompanied by a remittance for the full amount of the aggregate subscription price for the Shares in respect of which the notice is given (such notice to be received by the Company no later than two business days prior to the proposed meeting), exercise the option to its full extent or to the extent specified in the notice and the Company shall as soon as possible and in any event no later than the business day immediately prior to the date of the proposed meeting, allot and issue such number of Shares to the grantee which falls to be issued on such exercise of the option credited as fully paid and register the grantee as holder thereof.

With effect from the date of such meeting, the rights of all grantees to exercise their respective options shall forthwith be suspended. Upon such compromise or arrangement becoming effective, all options shall, to the extent that they have not been exercised, lapse and determine. If for any reason such compromise or arrangement does not become effective and is terminated or lapses, the rights of grantees to exercise their respective options shall with effect from such termination be restored in full but only upon the extent not already exercised and shall become exercisable.

(q) ***Ranking of Shares***

The Shares to be allotted upon the exercise of an option will not carry voting rights until completion of the registration of the grantee (or any other person) as the holder thereof. Subject to the aforesaid, Shares allotted and issued on the exercise of options will rank *pari passu* and shall have the same voting, dividend, transfer and other rights (including those arising on liquidation) as are attached to the other fully-paid Shares in issue on the date of exercise, save that they will not rank for any dividend or other distribution declared or recommended or resolved to be paid or made by reference to a record date falling on or before the date of exercise.

(r) ***Effect of alterations to capital***

In the event of any alteration in the capital structure of the Company whilst any option may become or remains exercisable, whether by way of capitalisation issue, rights issue, consolidation, subdivision or reduction of share capital of the Company, such corresponding alterations (if any) shall be made in the number of Shares subject to any outstanding options and/or the subscription price per Share of each outstanding option as the auditors of the Company or an independent financial adviser shall certify in writing to the Board to be in their/his opinion fair and reasonable in compliance with

Rule 23.03(13) of the GEM Listing Rules and the note thereto and the supplementary guidance attached to the letter from the Stock Exchange dated 5 September 2005 to all issuers relating to share option schemes. The capacity of the auditors of the Company or the approved independent financial adviser, as the case may be, in this paragraph is that of experts and not arbitrators and their certificate(s) shall, in the absence of manifest error, be final and conclusive and binding on the Company and the grantees.

Any such alterations will be made on the basis that a grantee shall have the same proportion of the equity capital of the Company (as interpreted in accordance with the supplementary guidance attached to the letter from the Stock Exchange dated 5 September 2005 to all issuers relating to share option schemes) for which any grantee of an option is entitled to subscribe pursuant to the options held by him before such alteration provided that no such alteration shall be made if the effect of which would be to enable a Share to be issued at less than its nominal value. The issue of securities as consideration in a transaction is not to be regarded as a circumstance requiring any such alterations.

(s) ***Expiry of option***

An option shall lapse automatically and shall not be exercisable (to the extent not already exercised) on the earliest of:

- (i) the date of expiry of the option as may be determined by the Board;
- (ii) the expiry of any of the periods referred to in paragraphs (l), (m), (n);
- (iii) the date upon which the scheme of arrangement of the Company referred to in paragraph (p) becomes effective;
- (iv) subject to paragraph (o), the date of commencement of the winding-up of the Company;
- (v) the date upon which the grantee ceases to be an Eligible Participant by reason of such grantee's resignation from the employment of the Company or any of its subsidiaries or the termination of his or her employment or contract on the grounds that he or she has been guilty of serious misconduct, or has committed any act of bankruptcy or is unable to pay his or her debts or has become insolvent or has made any arrangement or has compromised with his or her creditors generally, or has been convicted of any criminal offence involving his or her integrity or honesty or has been in breach of contract, or (if so determined by the Board) on any other ground on which an employer would be entitled to terminate his or her employment at common law or pursuant to any applicable laws or under the grantee's service contract with the Company or the relevant subsidiary. A resolution of the Board or the board of directors of the relevant subsidiary to the effect that the employment or other relevant contract 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; or
- (vi) the date upon which the Board shall exercise the Company's right to cancel the option at any time after the grantee commits a breach of paragraph (i) above or the options are cancelled in accordance with paragraph (u) below.

(t) *Alteration of the Share Option Scheme*

The Share Option Scheme may be altered in any respect by resolution of the Board except that:

- (i) any alteration to the advantage of the grantees or the Eligible Participants (as the case may be) in respect of the matters contained in Rule 23.03 of the GEM Listing Rules; and
- (ii) any material alteration to the terms and conditions of the Share Option Scheme or any change to the terms of options granted;

shall first be approved by the Shareholders in general meeting provided that if the proposed alteration shall adversely affect any option granted or agreed to be granted prior to the date of alteration, such alteration shall be further subject to the grantees' approval in accordance with the terms of the Share Option Scheme. The amended terms and any adjustment to be made to the exercise price of the Share Option Scheme shall still comply with Chapter 23 of the GEM Listing Rules, the supplemental guidance of 5 September 2005 and any future guidance or interpretation of the GEM Listing Rules from time to time and any change to the authority of the Board in relation to any alteration to the terms of the Share Option Scheme must be approved by the Shareholders in general meeting.

(u) *Cancellation of options*

Any cancellation of options granted but not exercised must be approved by the grantees of the relevant options in writing. For the avoidance of doubt, such approval is not required in the event that any option is cancelled pursuant to paragraph (i).

(v) *Termination of the Share Option Scheme*

The Company may by resolution in general meeting or the Board may at any time terminate the Share Option Scheme and in such event no further option shall be offered but the provisions of the Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any option granted prior thereto or otherwise as may be required in accordance with the provisions of the Share Option Scheme.

Options granted prior to such termination but not yet exercised at the time of termination shall continue to be valid and exercisable in accordance with the Share Option Scheme.

(w) *Administration of the Board*

The Share Option Scheme shall be subject to the administration of the Board whose decision as to all matters arising in relation to the Share Option Scheme or its interpretation or effect (save as otherwise provided herein) shall be final and binding on all parties.

(x) *Conditions of the Share Option Scheme*

The Share Option Scheme is conditional on:

- (i) the Listing Department granting approval to the listing of and permission to deal in the Shares which may fall to be issued pursuant to the exercise of options to be granted under the Share Option Scheme;
- (ii) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional (including, if relevant, as a result of the waiver of any such condition(s) by the Underwriters) and not being terminated in accordance with the terms of the Underwriting Agreements or otherwise; and
- (iii) the commencement of dealings in the Shares on the Stock Exchange.

If the conditions in paragraph (x) above are not satisfied within 12 calendar months from the Adoption Date:

- (i) the Share Option Scheme shall forthwith determine;
- (ii) any option granted or agreed to be granted pursuant to the Share Option Scheme and any offer of such a grant shall be of no effect; and
- (iii) no person shall be entitled to any rights or benefits or be under any obligations under or in respect of the Share Option Scheme or any option granted thereunder.

(y) *Disclosure in annual and interim reports*

The Company will disclose details of the Share Option Scheme in its annual and interim reports including the number of options, date of grant, exercise price, exercise period and vesting period during the financial year/period in the annual/interim reports in accordance with the GEM Listing Rules in force from time to time.

As at the Latest Practicable Date, no option had been granted or agreed to be granted under the Share Option Scheme.

Application has been made to the Listing Department for the listing of, and permission to deal in, the Shares which may fall to be issued pursuant to the exercise of the options to be granted under the Share Option Scheme, being 75,000,000 Shares in total.

2. **Tax indemnity, other indemnity and estate duty**

(a) *Tax indemnity*

Each of the Controlling Shareholders (the “**Indemnifiers**”) shall, pursuant to the Deed of Indemnity, jointly and severally indemnify and at all times keep each member of the Group fully and

effectively indemnified against, among other matters:

- (a) any liability for Hong Kong estate duty which is or hereafter become payable by any member of the Group under or by virtue of the provisions of section 35 and section 43 of the Estate Duty Ordinance (Chapter 111 of the Laws of Hong Kong) or any similar laws and regulations of any relevant jurisdiction by reason of the death of any person and by reason of any transfer of any property to any member of the Group at any time on or before the Listing Date;
- (b) the amount of any and all Taxation (as defined in the Deed of Indemnity) falling on any member of the Group resulting from or by reference to any income, profits, gains, transactions, events, matters or things earned, accrued or received, entered into (or deemed to be so earned, accrued or received or entered into) or occurring on or before the Listing Date, or as a consequence of any event which occurred on or before the date of Listing, whether alone or in conjunction with any other event, act, omission or circumstance against or attributable to any other person, firm or company whether or not such Taxation is chargeable against or attributable to any other person, firm or company; and
- (c) all actions claims including claims arising from building orders under the Building Ordinance (Chapter 123 of the Laws of Hong Kong) (if any) arising from the office building(s) of the Company, or any Group member, rented from the Indemnifiers and all such losses, damages and costs incurred as a result thereof;
- (d) all reasonable costs (including all legal costs and other professional costs on a full indemnity basis), expenses or other liabilities which any member of the Group may incur in connection with:
 - (i) the investigation, assessment or the contesting of any Taxation Claim (as defined in the Deed of Indemnity);
 - (ii) the settlement of any Taxation Claim;
 - (iii) any legal proceedings in which any member of the Group claims in respect of the Deed of Indemnity and in which judgment is given for or against any member of the Group;
or
 - (iv) the enforcement of any such settlement or judgment in respect of any legal proceedings referred to in paragraph (iii);
- (e) any actions, claims, losses, payments, suits, settlement payment, damages, costs (including legal costs and other professional costs on a fully indemnified basis), liability, damages, charges fees, fines, or expenses made against or suffered or incurred by the Company or any of the members of the Group in respect of or arising directly or indirectly from or on the basis of or in connection with any Taxation or Taxation Claim which is covered by the indemnities given under the Deed of Indemnity.

(b) *Claims indemnity*

The Indemnifiers have given indemnities against any expenses, payments, sums, outgoings, fees, demands, actions, claims, losses, damages, costs, charges, liabilities, fines or penalties which may be made, suffered or incurred by any of them in respect of or arising directly or indirectly from any Claim (as defined in the Deed of Indemnity), including but not limited to, all reasonable costs (including legal and other professional costs), expenses, interests, penalties, fines, charges and other liabilities which the Company and its subsidiaries may properly incur in connection with:

- (i) the investigation, assessment or the contesting of any Claim;
- (ii) the settlement of any Claim under the Deed of Indemnity;
- (iii) any legal proceedings in which the Group or any member of the Group claim under or in respect of the Claim under the Deed of Indemnity and in which judgment is given for or against it; and
- (iv) the enforcement of any such settlement or judgment in relation to the Claim.

(c) *Reorganisation and non-compliance claims indemnity*

The Indemnifiers have given indemnities against any depletion or reduction in value of the Group's assets or any loss (including all legal and other professional costs and suspension of operation), costs, expenses, damages or other liabilities which any member of the Group may incur or suffer arising from or in connection with the implementation of the Reorganisation.

The Indemnifiers have given indemnities against:

- (a) all expenses, payments, sums, outgoings, fees, demands, claims, damages, losses, costs, charges, liabilities, fines, penalties and tax which any member of the Group may incur, suffer or accrue, whether directly or indirectly, from or on the basis of or in connection with any Non-Compliance Matters (as defined in the Deed of Indemnity); and
- (b) all costs (including all legal and other professional costs), expenses, interests, penalties, fines, charges or other liabilities which any member of the Group may properly incur in connection with:
 - (i) the investigation, assessment or the contesting of any claim under (a);
 - (ii) the settlement Date of any claim under (a);
 - (iii) any legal proceedings in which any member of the Group claims under or in respect of (a), and in which judgment is given for or against any member of the Group; or
 - (iv) the enforcement of any such settlement or judgments.

(d) *Exceptions to indemnity*

The above indemnity in the Deed of Indemnity shall not apply in the following circumstances:

- (a) to the extent that full provision or allowance has been made for such Taxation in the audited consolidated accounts for the Company or any member of the Group as set out in Appendix I to this prospectus; or
- (b) to the extent that the liability for such Taxation would not have arisen but for some act or omission of, or transaction voluntarily effected by, any member of the Group (whether alone or in conjunction with some other act, omission or transaction, whenever occurring) other than any such act, omission or transaction carried out or effected in the ordinary course of business or in the ordinary course of acquiring and disposing of capital assets after Listing Date, or carried out, made or entered into pursuant to a legally binding commitment created on or before the date of Listing, or any Group members cease to be a member of the Group; or
- (c) to the extent that such Taxation or liability is/are discharged by another person who is not a member of the Group and that none of the members of the Group is required to reimburse such person in respect of such Taxation; or
- (d) to the extent that any provisions or reserve made for such Taxation in the audited accounts of the Group or any member of the Group up to 31 March 2018 which is finally established to be an over-provision or an excessive reserve provided that the amount of any such provision or reserve applied to reduce the Indemnifiers' liability in respect of Taxation shall not be available in respect of any such liability arising thereafter; or
- (e) to the extent that such Taxation arises or is incurred as a consequence of any change in the law having retrospective effect coming into force after the Listing Date or to the extent that such Taxation arises or is increased by an increase in rates of Taxation after the date of the Deed of Indemnity with retrospective effect.

(e) *Estate duty*

The Directors have been advised that no material liability for estate duty is likely to fall on any member of the Group in the Cayman Islands, Hong Kong, BVI and being jurisdictions in which the companies comprising the Group are incorporated.

3. Interests in competing business

None of the Directors, the Controlling Shareholders and their respective close associates of each are interested in any business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group.

4. Litigation

To the best knowledge of the Directors, as at the Latest Practicable Date, neither the Company nor any of its subsidiaries was engaged in any litigation, arbitration or claims of material importance and no litigation, arbitration or claim of material importance is known by the Directors to be pending or threatened by or against any member of the Group, that would have a material adverse effect on the Group's financial condition and results of operations.

5. Preliminary expenses

The preliminary expenses of the Company are approximately HK\$29,800 and have been paid by the Company.

6. Sole Sponsor

The Sole Sponsor has made an application on behalf of the Company to the Listing Committee of the Stock Exchange for listing of, and permission to deal in, the Shares in issue as mentioned herein and any Shares falling to be issued pursuant to the Share Offer, the Capitalisation Issue and the exercise of the options which may be granted under the Share Option Scheme. All necessary arrangements have been made enabling such Shares to be admitted into CCASS.

7. Independence of Sole Sponsor and Sponsor's Fees

The Sole Sponsor satisfies the independence criteria applicable to sponsors as set out in the GEM Listing Rules. The Company agreed to pay the Sole Sponsor a fee of HK\$3.7 million as the sponsor to the Company for the Listing (the "**Sponsor Fee**"). The Sponsor Fee relates solely to services provided by the Sole Sponsor in the capacity of a sponsor.

8. No material adverse change

The Directors confirm that, save as disclosed in the section headed "Financial information — Recent development and material adverse change" in this prospectus, there has been no material adverse change in the Group's financial or trading position since 31 March 2018 (being the date to which the Company's latest audited combined financial statements were made up).

9. Promoter

The Company has no promoter.

10. Agency fees or commissions received

None of the Directors or the experts named in the section headed "F. Other information — 12. Consent of experts" in this appendix had received any agency fee or commissions from the Group within the two years preceding the date of this prospectus.

11. Qualifications of experts

The following are the qualifications of the experts who have given opinion or advice which are contained in this prospectus:

South China Capital Limited	a licensed corporation under the SFO to engage in type 6 (advising on corporate finance) regulated activities (as defined under the SFO)
Deloitte Touche Tohmatsu	Certified public accountant
Maples and Calder (Hong Kong) LLP	Legal adviser as to Cayman Islands law
Ms. Ng Wing Shan, Queenie	A barrister-at-law in Hong Kong
Frost & Sullivan Limited	Industry consultant
Li & Partners (Shenzhen)	Legal adviser as to PRC law

12. Consent of experts

Each of South China Capital Limited, Deloitte Touche Tohmatsu, Maples and Calder (Hong Kong) LLP, Ms. Ng Wing Shan, Queenie, Frost & Sullivan Limited and Li & Partners (Shenzhen) has given and has not withdrawn its/her written consent to the issue of this prospectus with the inclusion of its/her report and/or letter and/or opinion and/or the references to its/her name included herein in the form and context in which they are respectively included.

None of the experts named above has any shareholding interests in the Company or any of its subsidiaries or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in the Company or any of its subsidiaries.

13. 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 insofar as applicable.

14. Bilingual prospectus

The English language and Chinese language versions of this prospectus are being published separately, in reliance upon the exemption provided by section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

15. Share register

The register of members of the Company will be maintained in Hong Kong by the Hong Kong Branch Share Registrar. Unless the Directors otherwise agree, all transfers and other documents of title to Shares must be lodged for registration with, and registered by, the branch registers in Hong Kong and may not be lodged in the Cayman Islands.

16. Compliance adviser

The Company has appointed Grand Moore Capital Limited as its compliance adviser pursuant to Rule 6A.19 of the GEM Listing Rules.

Further details are set out in the sub-section headed “Directors and senior management — Compliance adviser” in this prospectus.

17. Dividend

The Directors confirm that they are not aware of any arrangements in existence under which future dividends of the Company are to be waived or agreed to be waived.

18. Miscellaneous

Save as disclosed in this prospectus:

- (a) within the two years immediately preceding the date of this prospectus:
 - (i) no share or loan capital of the Company or any of its subsidiaries has been issued, agreed to be issued or is proposed to be issued fully or partly paid either for cash or for a consideration other than cash;
 - (ii) no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of the Company or any of its subsidiaries; and
 - (iii) no commission has been paid or payable (except to sub-underwriter) for subscribing or agreeing to subscribe, or procuring or agreeing to procure subscriptions, for any shares.
- (b) no founder, management or deferred shares of the Company have been issued or agreed to be issued;
- (c) no share, warrant or loan capital of the Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
- (d) none of the equity and debt securities of the Company is listed or dealt with in any other stock exchange nor is any listing or permission to deal being or proposed to be sought;

- (e) all necessary arrangements have been made enabling the Shares to be admitted into CCASS;
- (f) the Directors confirm that none of them shall be required to hold any shares by way of qualification and none of them has any interest in the promotion of the Company;
- (g) there has not been any interruption in the business of the Group which have or have had a significant effect on the financial position of the Group in the 24 months immediately preceding the date of this prospectus;
- (h) save as disclosed in the section headed “Financial information — Recent development and material adverse change” in this prospectus, there has been no material adverse change in the financial position or prospects of the Groups since 31 March 2018 (being the date to which the latest audited combined financial statements of the Group were made up);
- (i) there is no arrangement under which financial dividends are waived or agreed to be waived;
and
- (j) the Group does not have any outstanding convertible debt securities or debentures.

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, amongst other documents, copies of the Application Forms, the written consents referred to in the sub-section headed “F. Other information — 12. Consent of experts” in Appendix IV to this prospectus, the statement of adjustments referred to in the paragraph below headed “Documents available for inspection” and copies of the material contracts referred to in the sub-section headed “B. Further information about the business — 1. Summary of material contracts” in Appendix IV to this prospectus.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Li & Partners at 22/F, World-Wide House, 19 Des Voeux Road Central, Central, Hong Kong during normal business hours up to and including the day that is 14 days from the date of this prospectus:

- (1) the Memorandum and the Articles of the Company;
- (2) the accountants’ report of the Group for the years ended 31 March 2017 and 2018 prepared by Deloitte Touche Tohmatsu, the text of which is set out in Appendix I to this prospectus together with the statement of adjustments;
- (3) the auditor’s reports on the financial statements underlying the financial information of the Group incorporated in the Accountants’ Report;
- (4) the report from Deloitte Touche Tohmatsu on unaudited pro forma financial information, the texts of which is set out in Appendix II to this prospectus;
- (5) the material contracts referred to in the sub-section headed “B. Further information about the business — 1. Summary of material contracts” in Appendix IV to this prospectus;
- (6) the service agreements and letters of appointment with Directors referred to in the sub-section headed “D. Further information about the Directors — (a) Particulars of Directors’ service contracts” in Appendix IV to this prospectus;
- (7) the written consents referred to in the sub-section headed “F. Other information — 12. Consent of experts” in Appendix IV to this prospectus;
- (8) the letter of advice prepared by Maples and Calder (Hong Kong) LLP summarising certain aspects of Companies Law referred to in Appendix III to this prospectus;
- (9) the Companies Law;
- (10) the legal opinion issued by the Counsel on specific tax issue of the Group;
- (11) the PRC legal opinion prepared by Li & Partners (Shenzhen);
- (12) the Frost & Sullivan Report; and
- (13) the terms of the Share Option Scheme.

**Dominate Group
Holdings Company Limited**