THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult a licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Ernest Borel Holdings Limited, you should at once hand this circular, together with the enclosed form of proxy to the purchaser(s) or transferee(s) or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).

This circular is for information purpose only and does not constitute an invitation or offer to acquire, purchase or subscribe for any securities of the Company.

ERNEST BOREL
1856

ERNEST BOREL HOLDINGS LIMITED
依波路控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1856)

(1) MAJOR TRANSACTION ACQUISITION OF THE ENTIRE EQUITY INTEREST OF THE TARGET COMPANY INVOLVING ISSUE OF CONSIDERATION SHARES UNDER GENERAL MANDATE AND (2) NOTICE OF EXTRAORDINARY GENERAL MEETING

A letter from the Board is set out on pages 6 to 37 of this circular.

A notice convening the EGM to be held at 10/F., United Centre, 95 Queensway, Admiralty, Hong Kong on Wednesday, 29 March 2023 at 3:00 p.m. is set out on pages EGM-1 to EGM-2 of this circular. A form of proxy for use at the EGM is also enclosed with this circular.

Whether or not you are able to attend the EGM, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return it to the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong as soon as possible but in any event, not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or any adjourned meeting should you so wish and in such event, the form of proxy shall be deemed to be revoked.

13 March 2023

CONTENTS

In this circular, unless the context otherwise requires, the following expressions have the following meanings:

"Acquisition"	the acquisition of the Sale Shares by the Purchaser from the Vendor pursuant to the terms and conditions of the Agreement
"Actual NAV"	audited consolidated net asset value of the Target Group as at 31 December 2022 (or such other date as agreed by the Purchaser) as set out in audited consolidated statement of financial position of the Target Group as at 31 December 2022 (or such other date as agreed by the Purchaser) audited by an audit firm to be appointed by the Purchaser
"Agreement"	the sale and purchase agreement dated 21 November 2022 entered into between the Purchaser and the Vendor in respect of the Acquisition (as amended and supplemented from time to time)
"Annual Financial Statements"	the audited annual consolidated financial statements of the Target Group
"Board"	the board of Directors
"Business Day"	a day (other than Saturdays, Sundays and public holidays in Hong Kong and such other days where a "black" rainstorm warning or a tropical cyclone warning signal number 8 or above is in force in Hong Kong), on which licensed banks in Hong Kong are open for business throughout their normal business hours
"Cash Consideration"	HK$40,000,000, being the part of the Consideration to be settled in cash by the Purchaser
"Citychamp"	Citychamp Watch & Jewellery Group Limited, a company incorporated in the Cayman Islands with limited liability and the shares of which are listed on the Main Board of the Stock Exchange (Stock code: 256)
"Company"	Ernest Borel Holdings Limited, an exempted company incorporated in the Cayman Islands with limited liability, the issued Shares of which are listed and traded on the Main Board of the Stock Exchange (Stock code: 1856)
"Completion"	the completion of the Acquisition in accordance with the terms and conditions of the Agreement

"Completion Date"	means the tenth (10th) Business Day after the last of the outstanding conditions precedent shall have been fulfilled or waived or, such other date (which must be a Business Day) as may be agreed by the Purchaser and the Vendor in writing on which Completion shall take place
"connected person(s)"	has the meaning ascribed to it under the Listing Rules
"Consideration"	HK$140,000,000 (subject to adjustments), being the consideration payable by the Purchaser to the Vendor for the Sale Shares
"Consideration Shares"	38,461,538 new Shares to be allotted and issued by the Company to the Vendor at the Issue Price as partial settlement of the Consideration
"Director(s)"	the director(s) of the Company
"Disposal Subsidiary"	Grand Chances (Shenzhen) Investment and Development Co., Ltd.* (冠城金熹投資發展(深圳)有限公司), a company established in PRC with limited liability, which is wholly owned by the Target Company as at the Latest Practicable Date
"EGM"	the extraordinary general meeting of the Company to be convened and held at 10/F., United Centre, 95 Queensway, Admiralty, Hong Kong on Wednesday, 29 March 2023 at 3:00 p.m. for the Shareholders (other than Citychamp and its associates) to consider and, if thought fit, approve the Agreement and the transactions contemplated thereunder
"Enlarged Group"	the Group as enlarged by the Acquisition
"General Mandate"	the general mandate granted to the Directors pursuant to the ordinary resolution of the Shareholders passed at the annual general meeting of the Company held on 27 May 2022, which allowed the Directors to allot, issue and deal with up to 69,487,400 Shares, representing 20% of the total number of issued Shares as of the date on which such general mandate was granted
"Group"	the Company and its subsidiaries
"HK Subsidiary"	Gold Choice Investments Limited, a company incorporated in Hong Kong with limited liability, which is owned as to 60% by the Target Company as at the Latest Practicable Date

"HK Subsidiary Shareholder"	Mr. Cho Young Tai, the registered holder of 40% of the equity interest in the HK Subsidiary as at the Latest Practicable Date
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Third Party(ies)"	third party(ies) who is/are independent of, and not connected with, the Company and its connected persons
"Issue Price"	HK$2.6 per Consideration Share
"Last Trading Day"	18 November 2022, being the last trading day of the Shares before the signing of the Agreement
"Latest Practicable Date"	6 March 2023, being the latest practicable date to ascertain certain information contained herein before the printing of this circular
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Long Stop Date"	31 March 2023, or such later date as the Purchaser and the Vendor may agree in writing
"Mr. Chan"	Mr. Chan Heung Wai, Debby, a director and the controller of the Vendor holding 41% equity interest of the Vendor
"ODM"	original design manufacturer, a business model involving designing and manufacturing products or components for branding and resale by the customer
"OEM"	original equipment manufacturing, a business model involving manufacturing products or components in accordance with the customer's design and specifications for branding and resale by the customer
"PRC"	the People's Republic of China (excluding, for the purpose of this circular, Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan)
"PRC Subsidiary"	Dongguan Grand Chances Precision Hardware Products Co., Ltd.* (東莞冠熹精密五金製品有限公司), a company established in PRC with limited liability, which is wholly owned by the Target Company as at the Latest Practicable Date

"Profit"	the consolidated earnings from the Target Group's core business operations, excluding extraordinary items
"Profit Guarantee"	the irrevocable guarantee provided by the Vendor to the Purchaser that net Profit after tax of the Target Group as stated in the Annual Financial Statements for each of the financial years ending 31 December 2023, 31 December 2024 and 31 December 2025 shall not be less than HK$30,000,000
"Purchaser"	Swissmount Holdings Limited, a company incorporated in the British Virgin Islands with limited liability, which is a wholly-owned subsidiary of the Company
"RMB"	Renminbi, the lawful currency of the PRC
"Sale Shares"	10,000 shares in the share capital of the Target Company, representing the entire issued share capital of the Target Company as at the Latest Practicable Date
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share(s)"	the ordinary share(s) with nominal value of HK$0.1 each in the issued share capital of the Company
"Shareholder(s)"	holder(s) of the Shares
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"substantial shareholder(s)"	has the meaning ascribed to it in the Listing Rules
"Supplemental Agreement"	the supplemental agreement entered into between the Purchaser and the Vendor on 8 December 2022
"Target Company"	Gold Vantage Industrial Limited, a company incorporated in Hong Kong with limited liability, which is wholly owned by the Vendor as at the Latest Practicable Date
"Target Group"	the Target Company, the HK Subsidiary and the PRC Subsidiary
"Target NAV"	the net asset value of the Target Group as at 31 December 2022 (or such other date as agreed by the Purchaser) of HK$20,000,000 guaranteed by the Vendor

"Target Restructuring"	the restructuring of the Target Company and its subsidiaries prior to Completion, comprising (i) the disposal of the Disposal Subsidiary; and (ii) the transfer of 40% of the equity interest in the HK Subsidiary from the HK Subsidiary Shareholder to the Target Company
"Valuation Report"	the valuation report issued by the Valuer in relation to the valuation of the entire equity interest in the Target Group as at 30 September 2022 (assuming the Target Restructuring has been completed) using the market approach, the full text of which is set out in Appendix V to this circular
"Valuer"	Asset Appraisal Limited, an independent professional valuer appointed by the Company
"Vendor"	Fair Future Industrial Limited, a company incorporated in Hong Kong with limited liability, who is an Independent Third Party
"2024 H1 Profit"	the net Profit after tax for the six months ending 30 June 2024 of the Target Group as stated in the unaudited consolidated management accounts mutually agreed by the Purchaser and the Vendor
"%"	per cent.

* *For identification purposes only*

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

ERNEST BOREL
1856

ERNEST BOREL HOLDINGS LIMITED

依波路控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1856)

Executive Directors:
Mr. Teguh Halim *(Chairman)*
Ms. Lam Lai

Non-executive Director:
Mr. Xiong Ying

Independent Non-executive Directors:
Mr. To Chun Kei
Mr. Hui Cheuk Kit Frederick
Ms. Chan Lai Wa

Registered office:
Third Floor, Century Yard
Cricket Square, P.O. Box 902
Grand Cayman, KY1-1103
Cayman Islands

Head office in Switzerland:
8, rue des Perrières
2340 Le Noirmont
Switzerland

Office in the PRC:
Unit 901, Level 9
Tower A, Onelink International Centre
No. 230 Tianhe Road
Tianhe District, Guangzhou
China

Principal place of business and head office in Hong Kong:
Unit 1612–18, Level 16
Tower 1, Grand Century Place
193 Prince Edward Road West
Mongkok, Kowloon
Hong Kong

13 March 2023

To the Shareholders

Dear Sir or Madam,

(1) MAJOR TRANSACTION ACQUISITION OF ENTIRE EQUITY INTEREST OF THE TARGET COMPANY INVOLVING ISSUE OF CONSIDERATION SHARES UNDER GENERAL MANDATE AND (2) NOTICE OF EXTRAORDINARY GENERAL MEETING

INTRODUCTION

Reference is made to the announcements of the Company dated 21 November 2022, 8 December 2022 and 1 February 2023 in relation to the Acquisition.

The primary purpose of this circular is to provide you with, among other things, (i) further information of the Acquisition; (ii) financial information of the Target Company; (iii) unaudited pro forma financial information of the Enlarged Group ; (iv) the Valuation Report; (v) general information; and (vi) the notice of the EGM and other information as required to be disclosed under the Listing Rules.

THE AGREEMENT

On 21 November 2022 (after trading hours), the Purchaser (a direct wholly-owned subsidiary of the Company) and the Vendor entered into the Agreement, pursuant to which the Purchaser conditionally agreed to acquire, and the Vendor conditionally agreed to sell, the Sale Shares at the Consideration in accordance with the terms and conditions of the Agreement.

The principal terms of the Agreement (as amended and supplemented by the Supplemental Agreement) are set out below:

Date

21 November 2022 (after trading hours) *(Note)*

Note: the Agreement was amended and supplemented by the Supplemental Agreement entered into by the Purchaser and the Vendor on 8 December 2022.

Parties

(i) the Vendor; and

(ii) the Purchaser

As at Latest Practicable Date, the Vendor is indirectly owned as to 25% by Citychamp, a substantial shareholder of the Company. The ultimate beneficial owner of Citychamp is Mr. Hon Kwok Lung who is interested in approximately 69.65% of the total issued share capital of Citychamp as at the Latest Practicable Date. The other shareholders of the Vendor are Mr. Chan, Ms. Yeung Yuk Kwan and Peaceful Consultants Ltd. (which is wholly owned by Mr. Yang Hua), holding 41%, 10% and 24% respectively of the issued share capital of the Vendor.

As at the Latest Practicable Date, to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Vendor and its ultimate beneficial owners (except Citychamp and Mr. Hon Kwok Lung) are Independent Third Parties.

Subject Matter

Pursuant to the Agreement, the Purchaser has conditionally agreed to acquire, and the Vendor has conditionally agreed to sell, the Sale Shares, representing the entire total issued share capital of the Target Company as of the Latest Practicable Date.

As at the Latest Practicable Date, the Sale Shares were directly held by the Vendor. Upon Completion, the Target Company will become an indirect wholly-owned subsidiary of the Company and the financial results of the Target Company will be consolidated into the financial statements of the Group. The Purchaser shall not transfer, charge, encumber or dispose of any of the Sale Shares without the consent of the Vendor until the Purchaser has discharged all of its obligations in relation to the payment of the Consideration.

Consideration

Subject to the adjustment pursuant to the Profit Guarantee, the Consideration for the Acquisition shall be HK$140,000,000, which shall be settled by the Purchaser in the following manner:

(a) as to HK$100,000,000, representing approximately 71.43% of the Consideration, shall be satisfied by way of the allotment and issue of 38,461,538 Consideration Shares credited as fully paid up at the Issue Price per Consideration Share to the Vendor; and

(b) as to HK$40,000,000, representing approximately 28.57% of the Consideration, shall be settled in cash by the Purchaser.

Payment Terms

Subject to the adjustment pursuant to the Profit Guarantee, the Consideration will be paid by the Purchaser to the Vendor in instalments as follows:

(a) *First instalment of Consideration Shares:* 12,820,512 Consideration Shares shall be allotted and issued to the Vendor (i) on 3 January 2023 (on condition that the Completion takes place on 30 December 2022); or (ii) within 10 Business Days after the Completion Date (if the Completion Date is not 30 December 2022);

(b) *First instalment of Cash Consideration:* HK$13,333,333.3 of the Cash Consideration shall be paid by the Purchaser transferring such amount to the designated bank account of the Vendor (i) on 1 April 2024, if the Annual Financial Statements for the year ended 31 December 2023 has been issued on or before 31 March 2024; or (ii) within 30 Business Days after the issuance of the Annual Financial Statements for the year ended 31 December 2023 if the Annual Financial Statements for the year ended 31 December 2023 is issued after 31 March 2024;

(c) *Second instalment:*

(i) if the 2024 H1 Profit is not less than HK$14,000,000, an amount up to HK$13,333,333.3 of the Cash Consideration shall be paid by the Purchaser by transferring such amount to the designated bank account of the Vendor on 1 September 2024, and paragraph (c)(ii) and (iii) below shall not apply. If the 2024 H1 Profit is HK$10,000,000 or more but less than HK$14,000,000, the Cash Consideration will be paid on 1 September 2024 according to the below table:

2024 H1 Profit	**Cash Consideration**
HK$10,000,000 or more, but less than HK$12,000,000	HK$10,000,000.00
HK$12,000,000 or more, but less than HK$14,000,000	HK$12,000,000.00
HK$14,000,000 or above	HK$13,333,333.30

(ii) if the 2024 H1 Profit is HK$10,000,000 or more but less than HK$14,000,000, any shortfall between HK$13,333,333.3 of the Cash Consideration and the amount of Cash Consideration paid under paragraph (c)(i) above shall be paid by the Purchaser by transferring such amount to the designated bank account of the Vendor (i) on 1 April 2025 if the Annual Financial Statements for the year ended 31 December 2024 has been issued on or before 31 March 2025; or (ii) within 30 Business Days after the issuance of the Annual Financial Statements for the year ended 31 December 2024 if the Annual Financial Statements for the year ended 31 December 2024 is issued after 31 March 2025, and paragraph (c)(iii) below shall not apply;

(iii) if the 2024 H1 Profit is less than HK$10,000,000, up to HK$13,333,333.3 of the Cash Consideration shall be paid by the Purchaser by transferring such amount to the designated bank account of the Vendor (i) on 1 April 2025 if the Annual Financial Statements for the year ended 31 December 2024 has been issued on or before 31 March 2025; or (ii) within 30 Business Days after the issuance of the Annual Financial Statements for the year ended 31 December 2024 if the Annual Financial Statements for the year ended 31 December 2024 is issued after 31 March 2025; and

(iv) 12,820,513 Consideration Shares shall be allotted and issued to the Vendor (i) on 1 April 2025 if the Annual Financial Statements for the year ended 31 December 2024 has been issued on or before 31 March 2025; or (ii) within 30 Business Days after the issuance of the Annual Financial Statements for the year ended 31 December 2024 if the Annual Financial Statements for the year ended 31 December 2024 is issued after 31 March 2025;

(d) *Third instalment:* HK$13,333,333.4 of the Cash Consideration shall be paid by the Purchaser by transferring such amount to the designated bank account of the Vendor and 12,820,513 Consideration Shares shall be allotted and issued to the Vendor (i) on 1 April 2026 if the Annual Financial Statements for the year ended 31 December 2025 has been issued on or before 31 March 2026; or (ii) within 30 Business Days after the issuance of the Annual Financial Statements for the year ended 31 December 2025 if the Annual Financial Statements for the year ended 31 December 2025 is issued after 31 March 2026.

The Cash Consideration will be funded by the Group's internal resources (including cash generated from operations of the Enlarged Group and shareholders' loan) and/or bank borrowings of the Group. The first instalment of Cash Consideration will be paid by the Group on 1 April 2024 at the earliest. The Group will continue to monitor the market conditions (including the benchmark interest rate and prevailing market terms for bank loans) to decide if obtaining bank borrowings to satisfy the Cash Consideration is in the best interest of the Company. It is impracticable for the Company, on the Latest Practicable Date, to identify the specific amount from the internal resources and/or bank borrowings, respectively to be used for the purpose of funding the Consideration only.

The Company has no plan or intention to conduct any equity fund raising activities in the next 12 months.

Alternatives in settling the Consideration

In determining the method of settlement of the Consideration, the Company also considered alternative settlement methods, such as a higher proportion of the Consideration to be settled by cash and/or bank borrowings and pre-emptive equity financing.

For settling a higher proportion of the Consideration wholly by the cash, the Board considers it would reduce the Group's cash resources which in turn will hinder its flexibility and ability to improve the cash position for business development and operation of the Group. For bank borrowings, the Board considers that it will incur interest expenses and increase the gearing ratio of the Group. It may also require pledge of assets and/or other kind of securities which may reduce the Group's flexibility in managing its portfolio. Bank borrowing may also be subject to lengthy due diligence and negotiations.

Pre-emptive equity financing, such as rights issue and open offer, would only be conducted on a best-effort basis and may impose uncertainty on the final amount of proceeds to be raised and subject to market condition. In addition, the Board considers that pre-emptive equity financing would require substantial time for extra administrative work for preparation and issue of related documents, incur substantial costs in relation to the engagement of professional advisers and printing charges which might in turn cause an adverse impact on the financial condition of the Group. The pre-emptive equity financing would also have a potential larger dilution effect on the shareholding interests of the existing Shareholders who do not participate in such financing activities.

With reference to the shareholding table in the paragraph headed "Effect of Shareholdings Structure of the Company" in the section headed "Letter from the Board" in this circular, the aggregate shareholding interests of the public Shareholders (excluding the Vendor) would be diluted from approximately 25% to approximately 22.51% immediately upon the allotment and issuance of all the Consideration Shares (assuming there will not be any change in the issued share capital of the Company from the Latest Practicable Date up to and including the date of allotment and issue of the Consideration Shares with no adjustment being made).

Although there is dilution effect to the shareholding interests of the existing public Shareholders after the issuance of the Consideration Shares, having taken into account that (i) the allotment and issue of Consideration Shares could allow the Company to maintain sufficient cash balance for the Group's daily operation; (ii) Mr. Chan, the ultimate beneficial owners of the Vendor and the director of the Target Company, will remain in the core management team of the Target Group after Completion and the allotment and issue of the Consideration Shares to the Vendor ties the interest of Mr. Chan to the performance of the Enlarged Group which serves as an incentive to Mr. Chan to create value in the business of the Target Group and thereby improving the overall performance of the Enlarged Group; (iii) the reasons for and the benefits of the Acquisition as set out in the paragraph headed "Reasons for and Benefits of the Acquisition" in the section headed "Letter from the Board" in this circular; and (iv) the Issue Price is fair and reasonable and in the interests of the Company and Shareholders as a whole, the Board considers that the dilution effect on the shareholding interests of other public Shareholders is justifiable and the issue of the Consideration Shares is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Profit Guarantee and Adjustment of Consideration

The Vendor guarantees to the Purchaser that the net Profit after tax of the Target Group for each of the financial years ending 31 December 2023, 31 December 2024 and 31 December 2025 shall not be less than HK$30,000,000. If the net Profit after tax stated in the Annual Financial Statements falls short of the Profit Guarantee in any such year, an amount equal to 1.5 times the amount by which the actual net Profit after tax is less than the Profit Guarantee ("**Profit Compensation**") shall be payable by the Vendor to the Purchaser.

In determining the net Profit after tax for the purpose of the Profit Guarantee and Profit Compensation, any extraordinary or exceptional items derived outside the ordinary and usual course of business of the Target Group shall be excluded as determined by the Purchaser. In case of disputes on the determination of the extraordinary or exceptional items, determination will be made based on the opinion of an independent auditor appointed by the Purchaser.

The Consideration shall be reduced by the amount of the Profit Compensation, firstly by reduction of the outstanding Consideration Shares for the instalment, and then the balance of the Profit Compensation shall be reduced by the outstanding Cash Consideration for the instalment. Moreover, for any instalment of the Consideration, if the Profit Compensation is larger than the outstanding unpaid amount of the instalment, the Vendor shall compensate the Purchaser by paying to the Purchaser the shortfall (i.e. the difference between the Profit Compensation and the outstanding unpaid amount of the instalment of the Consideration) in cash within 30 Business Days after the issuance of the Annual Financial Statements for the relevant financial year.

There is no cap on the amount of the Profit Compensation. In case that the Target Group recorded loss in its consolidated financial statements, the Vendor shall compensate the Purchaser 1.5 times of the difference between the net loss after tax and HK$30,000,000.

The multiplier of 1.5 of the amount of the shortfall in net Profit after tax, which is comparatively lower than the price to earnings ratio of approximately 4.7 times used in calculating the Consideration based on the guaranteed net Profit after tax of HK$30,000,000 for each of the 3 years ending 31 December 2025, is determined based on the ratio of the total Consideration of HK$140,000,000 to the aggregate guaranteed Profit of HK$90,000,000 for the three years ended 31 December 2025, which is approximately 1.56, taking into account (i) the arrangement of the payment of the Consideration involving payments by instalments until 2026 (subject to deduction of the amount of the Profit Compensation, if any, at each stage); and (ii) that there is no cap on the amount of the Profit Compensation. In light of the above, the Board is of the view that the multiplier used in calculating the Profit Compensation is fair and reasonable and in the interest of the Company and its Shareholders as a whole.

The Profit Guarantee of HK$30 million for each of the financial years ending 31 December 2023, 31 December 2024 and 31 December 2025 was determined after arm's length negotiations between the Purchaser and the Vendor based on the unaudited net Profit after tax of the PRC Subsidiary of RMB22.5 million for the nine months ended 30 September 2022 and the estimated sales for the products of the Target Group based on the following factors: (i) the existing contracts with customers and on-going deal flows which are expected to generate a total revenue of approximately HK$800 million for the three years ending 2025; (ii) the available market data available on or before the date of the Agreement which has indicated an expanding global smartwatch market size with significant growth rate. For example, according to "Market Status and Competitive Landscape Analysis of the Global Smart Watch Industry in 2022" (2022年全球智能手錶行業市場現狀及競爭格局分析) issued by Qianzhan Industry Institute (前瞻產業研究院) on 14 July 2022, the global and PRC smartwatch shipments have been increased since 2016 with minor fluctuation. With the gradual recovery from the Novel Coronavirus ("**COVID-19**") epidemic, the global smartwatch shipments increased rapidly and exceeded 100 million units for the whole year in 2021, representing an increase of approximately 28.31% compared with that of 2020. China's smart watch shipments reached 29.56 million units, representing an increase of approximately 21.4% from 2020. According to the press release issued by Counterpoint Technology Market Research on 29

November 2022, the global basic smartwatch market shipments increased by approximately 30% year-on-year in the third quarter of 2022. The increase in smartwatch shipments show that the market base has been rapidly expanding. In addition, according to "Smartwatch Market by Type, Operating System, and Geography — Forecast and Analysis 2022–2026" published by Technavio in September 2022, the smartwatch market share is expected to increase by US$23.02 billion from 2021 to 2026, and the market's growth momentum will accelerate at a compound annual growth rate of approximately 14.06%; (iii) increase of new sales orders received by the Target Group in 2022 which is expected to continue due to increasing customer demand and expanding market size; (iv) estimated sales orders to be received by the Target Group from customers; and (v) expectation for improvement of performance of the Target Group of the management of the Target Group based on their experience.

The significant improvement of the financial performance of the PRC Subsidiary in 2022 was mainly attributed to the increase of new sale orders received from a long-term strategic partner and customer (the "**Customer**") during 2022. The Customer is the OEM of the smart watch of a world-renowned company (the "**Ultimate Client**"), which has started its long-term strategic deployment of smart watches in light of the general trend of wearable devices. The PRC Subsidiary provides technical support services and manufactures smart watch casings and components to the Customer, which directly benefited from the strategic deployment on smart watches of the Ultimate Client. As of September 2022, about 90% of sales revenue of the PRC Subsidiary came from the Customer. As confirmed by the Vendor and to the best of the Directors' knowledge, information and belief having made all reasonable enquiry, the Customer and the Ultimate Client are third party independent from the Company and its connected persons and the Vendor.

In addition to the new market opportunities, the PRC Subsidiary has its unique and leading technologies which represents a strong competitive advantage to drive its future growth. After six years of development and investment, the PRC Subsidiary has 17 registered patents and 2 patent applications in the PRC as at the Latest Practicable Date. A patented technology named "easy to disassemble the watch case" of the PRC Subsidiary has been used in the first generation of smart watches of the Ultimate Client. In addition, to the best of the Directors' knowledge, the PRC Subsidiary has obtained the first environmental protection certification in the development of stainless-steel metal injection molding (MIM), and the material recycling rate has reached 85%, taking the global lead in reducing carbon emission in the industry.

Taking into account the above factors, the Directors are of the view that the increase in the profit is recurring in nature and the Target Group is expected to continue to grow with the increasing market demand for smart watches in Asia and worldwide.

The Profit Guarantee has also been determined having regard to:

(i) the sales forecast based on the sales contracts on hand between the Target Group and its customers which are expected to generate a total revenue of approximately HK$800 million for the three years ending 2025, bringing improvement in the business of the Target Group as compared to that in the previous two financial years;

(ii) the latest business performance of the Target Group in 2022, indicating a rapid growth in revenue as a result of organic growth of the Target Group and the increase of sales orders received from one of its major customers, which is in line with the expectations of the management of the Target Company. The improvement in the financial performance of the Target Group is expected to continue for the three years ending 31 December 2025 by the management of the Target Company. The Target Group recorded net losses for the financial years ended 31 December 2020 and 2021 due to (a) the depressed market sentiment caused by the global outbreak of the COVID-19 pandemic; (b) the initial investment in R&D at the early stage of the technology development; and (c) the investment in purchasing advanced manufacturing equipment for the development of watch cases at the early stage. Considering (a) the improvement of market sentiment, the growth in the smartwatch market and the new business opportunities; (b) the increasing number of sales orders; and (c) the benefits to be driven by the initial investment in R&D and advanced manufacturing equipment, the Directors believe that the financial performance of the Target Group for the nine months ended 30 September 2022 is a better measure of the profitability of the Target Group following Completion;

(iii) the development and business strategies of the Target Group which have been implemented and are expected to continue to facilitate the growth of the Target Group, including, among others:

    (a) driving sales volumes by offering affordable and suitable products for the consumers of the target markets;

    (b) targeted sales and marketing activities to increase the customer base of the Target Group and actively exploring new business opportunities;

    (c) developing new wearable intelligent products in cooperation with several world-renowned companies, which will further broaden the revenue base of the Target Group; and

(d) adopting "intelligent manufacturing" as the development strategy of the PRC Subsidiary, which includes engaging in industries with great growth potential such as the new generation of consumer electronics, and adopting modern and digital production management. As advised by the Vendor, the PRC Subsidiary has recently invested in a new production management system and cooperated with intelligent robots. It plans to build a "CNC unmanned workshop" and a "digital factory" in 2023, which will improve the cost-effectiveness and quality of products of the PRC Subsidiary, improving the competitive strengths of the PRC Subsidiary to face the fierce market competition.

In this regard, the Company has conducted the following key due diligence work:

(i) discussing with the management of the Target Company to understand the business development strategies of the Target Company;

(ii) obtained and reviewed the major existing customer contracts and purchase orders received by the Target Group;

(iii) reviewed the latest financial information of the Target Group and discussed with the management of the Target Company to understand the reasons for the significant improvement in the financial performance of the Target Group;

(iv) reviewed qualifications and competence of the management team of the Target Group to ensure they have strong expertise and rich experience in managing the businesses and projects for the Target Group; and

(v) conducted market analysis to examine the smartwatch market environment.

Having considered the increased sales orders received by the Target Group since 2022, the projected sales volume based on the sales contract on hand and the positive outlook for the smartwatch market, the Board is of the view that the improvement in the financial performance of the Target Group will continue and the financial performance of the Target Group for the nine months ended 30 September 2022 is a better measure of the profitability of the Target Group for the purpose of determining the Profit Guarantee.

Further, should the Target Group be unable to meet the Profit Guarantee, the Consideration, which will be paid in instalments, will be adjusted by the amount of Profit Compensation. The Company will appoint an auditor to conduct annual review of the financial statements of the Target Group during the each of the three financial years ending 31 December 2025. The Directors will regularly monitor the actual performance of the Target Group.

Having considered the basis upon which the Profit Guarantee has been determined, the audited net Profit after tax of the Target Group of approximately HK$15.6 million for the nine months ended 30 September 2022 and the above, the Directors are of the view that the Profit Guarantee, which was arrived at arm's length negotiation with the Vendor, is achievable, fair and reasonable, and in the interests of the Shareholders of the Company as a whole.

For the avoidance of doubt, the Profit Guarantee made by the Vendor does not constitute any profit forecast of the Target Group under Rule 14.61 of the Listing Rules and should not be regarded in any way as an indication of the projected profit of the Target Group for the relevant financial years. While the Company has assessed the sales condition of the Target Group in determining whether the improvement in the financial performance of the Target Group can sustain, the guaranteed profits of the Profit Guarantee above are merely thresholds for Profit Compensation and are only commercial terms arrived at after arm's length commercial negotiation between the Vendor and the Purchaser.

Basis of Consideration

The Consideration was determined after arm's length negotiations between the Purchaser and the Vendor on normal commercial terms after taking into account (i) the historical financial performance of the Target Company, the PRC Subsidiary and the HK Subsidiary pursuant to their respective audited financial statements for the years ended 31 December 2020 and 2021; (ii) the business overview and prospect of the Target Group; (iii) the Profit Guarantee provided by the Vendor; and (iv) the appraised value of the entire issued share capital of the Target Group as at 30 September 2022 as shown in the Valuation Report was HK$149,000,000 as set out in Appendix V.

Conditions Precedent

Completion of the Acquisition is conditional upon the satisfaction (or waiver, if applicable) of the following conditions precedent:

(a) the HK Subsidiary and the PRC Subsidiary being and remaining as 100%-owned subsidiaries of the Target Company;

(b) all subsidiaries and/or investee entities of the Target Company other than the HK Subsidiary and the PRC Subsidiary having been disposed by the Target Company;

(c) no money being due and/or owing by any company of the Target Group (i) to the Vendor, any of the Vendor's existing shareholders and/or their respective associates; and (ii) to other parties; in both cases, except for the liabilities of the Target Group shown in the audited consolidated statement of financial position of the Target Group as at 31 December 2022 (or such other date as agreed by the Purchaser) audited by an audit firm to be appointed by the Purchaser;

(d) the Vendor being, and remaining as, the sole shareholder of the Target Company;

(e) the Purchaser having completed due diligence examinations of the Group, with the results and outcome of the due diligence examinations being reasonably satisfactory to the Purchaser;

(f) during the period from the date of signing the Agreement to the Completion Date, no action, legal proceeding, lawsuit or public inquiry has been taken or initiated by any relevant government agency, or no request or decree or judgment (whether temporary, preliminary or permanent), making the transfer of the Sale Shares by the Vendor to Purchaser or any transaction under the Agreement unlawful, void, unenforceable or otherwise prohibited or restricted;

(g) all requisite waivers, consents and approvals from any relevant governments or regulatory authorities or other relevant third parties in connection with the transactions contemplated by the Agreement required to be obtained on the part of the Vendor and the Purchaser having been obtained;

(h) the Listing Committee of the Stock Exchange having approved the listing of, and permission to deal in, the Consideration Shares, and such approval shall not be threatened with any revocation, withdrawal or cancellation at any time prior to Completion;

(i) from the date of the Agreement and at any time before the Completion, the warranties remain true and accurate in all material respect and not misleading in any material respect and no events have occurred that would result in any breach of any warranties or other provisions of the Agreement by the Vendor in any material respects;

(j) there is no occurrence of any material adverse change nor any events, matters or circumstances in relation to the standstill obligations under the Agreement with respect to any company of the Target Group; and

(k) the Actual NAV, as shown in the audited consolidated statement of financial position of the Target Group as at 31 December 2022 (or such other date as agreed by the Purchaser) audited by an audit firm to be appointed by the Purchaser, is not less than the Target NAV.

Save for the condition set out in paragraph (h) above, the Purchaser may at its sole and absolute discretion and at any time waive, by notice in writing to the Vendor, all or any of the conditions precedent above. Such waiver may be made subject to such terms and conditions as are determined by the Purchaser.

Under condition (k), as a condition precedent, the Actual NAV, as shown in the audited consolidated statement of financial position of the Target Group as at 31 December 2022 (or such other date as agreed by the Purchaser) audited by an audit firm to be appointed by the Purchaser, shall not be less than the Target NAV which is HK$20,000,000. At the time of the Agreement, it was the parties' intention that the Acquisition could be completed at an earlier time and the fulfillment of condition (k) could be determined by the Actual NAV of the Target Group as at 30 November 2022 or an earlier time. Therefore, the parties have retained certain flexibility in condition (k). As at the latest Practicable Date, the Company and the Purchaser have no intention to agree on a different date for calculating the Actual NAV.

If the conditions precedent have not been satisfied, or where applicable, waived on or before 12:00 noon on the Long Stop Date, the Agreement shall cease and terminate and neither Vendor nor the Purchaser shall have any obligations and liabilities under the Agreement save for any antecedent breaches.

As at the Latest Practicable Date, all the conditions precedent (except conditions (c), (g), (h) and (k)) were fulfilled. Save for the Shareholders' approval, the Company is not aware of any other applicable approvals from any relevant governments, regulatory authorities or other relevant third parties which are required in respect of the Acquisition. Condition (g) was fulfilled save for the approval of the Acquisition from the Shareholders.

Completion

Subject to satisfaction of all the conditions precedent in full (save for any condition precedent the full compliance with or satisfaction of which has been waived by the Purchaser), Completion shall take place on the Completion Date.

Under the Agreement, the Completion Date and Long Stop Date may be changed (including postponed) by agreement between the parties. This arrangement is to provide certain flexibility to the parties considering that the time required to prepare this circular and obtain clearance from the Stock Exchange prior to the publication of this circular may be longer than expected which is also the only circumstance where the Company will agree to the postponement of the Long Stop Date and the Completion Date. As at the latest Practicable Date, the Company has no intention to postpone the Long Stop Date and the Completion Date further to a date when the market conditions may be very different. The Company and the parties are working towards obtaining Shareholders' approval and completing the Acquisition by 31 March 2023.

BOARD'S ASSESSMENT ON THE VALUATION REPORT OF THE TARGET GROUP AND THE CONSIDERATION OF THE ACQUISITION

The Consideration was determined with reference to, among others, the appraised fair value of 100% equity interest in Target Group as at 30 September 2022 according to the Valuation Report. As set out in the Valuation Report contained in Appendix V of this circular, the appraised fair value of 100% equity interest of Target Group is HK$149,000,000 as of 30 September 2022.

The Board has reviewed and assessed the Valuation Report prepared by the Valuer in respect of the Target Group and the underlying valuation methodology, selection criteria of comparable companies, parameters and assumption, including but not limited to:

(i) the qualification and experience of the Valuer

The Valuer has sufficient experience and the relevant professional qualifications required to perform the valuation of the shareholders' equity of the Target Group. The valuation personnel in charge of the valuation possess relevant qualifications and has over 15 years' experience in providing valuation services (including company equity valuation) to listed companies of different industries in the PRC and Hong Kong. The Valuer is independent of and not connected with the Company and its connected persons.

(ii) valuation methodologies

As set out in the Valuation Report, market approach is adopted in deriving the appraised fair value of 100% equity interest in Target Group as of 30 September 2022. The Board has reviewed their valuation methodologies and understood that there are three generally accepted approaches to appraise the fair value of 100% equity interest of the Target Group, namely market approach, cost approach and income approach.

In the Valuation Report, the Valuer adopted the market approach as this approach considers the recent prices of similar targets and introduces objectivity as publicly available inputs are used. As advised by the Valuer, the cost approach is incapable to reliably reflect the value of the equity interest in Target Group which generates revenues through its products and services, and income approach relies heavily on a long-term financial forecast and cash flow projection, which are highly uncertain, and subjective assumptions that are difficult to be justified. Having taken into account the above, in particular the financial results of Target Group and availability of sufficient and objective market data as mentioned above, the Board concurs with the Valuer that the market approach is commonly used and is the most appropriate method for deriving the fair value of 100% equity interest of Target Group under the above circumstances.

Selection of comparable companies

As advised by the Valuer, the fair value of 100% equity interest of Target Group is arrived at with reference to 6 comparable companies (the "**Comparable Companies**") selected based on the following criteria: (i) the company is engaged in and is generating majority operating revenues (over 80%) from watch and/or ornament precision metal component businesses; (ii) the company's share trading prices and financial information are publicly available; (iii) the operating profit for the latest 12 months financial reporting period is positive; and (iv) the company's shares have more than 2 years' exchange trading history as newly listed stocks have relatively higher potential to be traded at unreasonable price level. The Board noted that the Valuer initially searched for listed precision watch metal part manufacturers meeting criteria (iii) and (iv). However, only one company meeting such selection criteria was identified. The Valuer has therefore expanded the range of selection to include companies operating similar production activities by applying similar production technologies, tools and equipment and facing similar demand determinants to avoid unreliable assessment results due to insufficient comparables. The Board agrees with the Valuer that it is important to have a comprehensive set of comparables that engaged in similar business as much as possible with important features as opposed to stripping down the sample size of the comparables to a very minimal which may also adversely affect the accuracy of the Valuation due to the lack of representativeness of the sample size. The Board has assessed the appropriateness of the selection criteria of the Comparable Companies and reviewed the Comparable Companies identified by the Valuer. Although the Board noted that five of out six Comparable Companies are engaged in production of jewelry products and accessories, the Board considers that the five Comparable Companies are comparable to the Target Group as they are both engaged in the production of high precision metal parts or components and jewelry products and watch or timepieces are common consumer discretionary items with demand highly correlated with the economic cycles. The Board noted that the Target Group and the Comparable Companies are playing similar role in the supply chain in view of the nature of their business and the target customers. The Comparable Companies engaging in the production of jewelry products and accessories, which also targeted at more high-end and individual end-customers similar to smart watches, are precision metal component manufacturers whose main task is to employ their skillsets, equipment and tools to produce metal parts for jewelry products and watches with creative design, intricate details and minimum tolerances for fits and geometries. The key production technologies, tools and equipment for the production of jewelry products and watch metal parts are highly similar as both involve grinding and assembly. Similar with the Target Group, the Comparable Companies need to spur intense efforts to fortify their production techniques and technologies as a continuous endeavor to cater for the increasing requirements from the customers and to survive the competitive market and face similar operational and market risks. For the Comparable Companies engaging in jewelry products and accessories, some of them focus on either watch or jewelry products and some of them, particularly where their customers include luxury brands selling both watch and jewelry products, have wider product mixes producing precision metal components for both watch and jewelry products. Jewelry products and watches are often classified into the same group of consumer products. The income sources of these Comparable Companies are similar to that of the Target Group (which sells watch cases and other metal watch component which are the ornament parts) with revenue mainly derived from sales of watch and/or ornament precision metal component. The cost structure is also similar with majority operating expenses from costs of raw materials and staff costs in relation to production. Taking into account the similarity in the business model, target customers, cost structure and income sources, the Directors are of the view that the Comparable Companies engaging in production of jewelry products and accessories are appropriate for determining the value of the Target Group.

The Company noted that the Comparable Companies appear to have a different scale of operations in term of market capitalisation and annual net profit relative to the Target Group and operate in different geographical locations. It is noted from the Valuer that it is a common practice in the valuation industry to extend the screening radar or filter in order to obtain more comparables with slight relaxation of and lesser emphasis on some of the consideration factors, such as market size. When determining the appropriateness of the comparables, it is normal to consider all aspects and attributes of the comparables on a collective, comprehensive and balanced basis. Based on general practice and experiences of valuation profession in the market, since the barrier of entry of this industry is very low, the scale of operation and market capitalisation are relatively less important and determinant factors in selecting guideline comparable companies. In addition, the market capitalisation and the annual net profit of the Target Group are falling within the range of the corresponding measures of the Comparable Companies. For geographical location of operation, the Board noted that the Target Group's customers for the coming three years are from different regions or countries of the world, such as Taiwan and South Korea with worldwide end-customers. Similar to the Target Group, the Comparable Companies have developed overseas market and sell their products to end-customers worldwide. Thus, the Directors consider it fair and reasonable to select the Comparable Companies operating in different geographical location or of a different size of operation to avoid unreliable assessment results due to insufficient comparables.

The Board noted that the types of products, size, business scale, profit margin and prospects of the Comparable Companies can be quite different from the Target Group as it is hard to find direct comparables in the public domain. However, the Board considers that there remained a number of comparable features such as business nature (i.e. similar to the Target Group, the Comparable Companies are principally engaged in production of ornament precision metal components), target customer groups, production technologies and equipment, financial conditions (i.e. similar to the Target Group, the Comparable Companies all had positive operating profits for the latest 12 months financial reporting period), operational and market risks (i.e. demand for the products is highly sensitive to the global economic conditions which may be affected by political factors, trade disputes and natural disasters). Considering (i) the similar industry or industry with similar characteristics of the Comparable Companies; (ii) that the Comparable Companies are publicly listed and provide objective public available information for assessing the fair value of the equity interest in Target Group; (iii) the higher growth potential in smartwatch market involving assembly of micro precision parts and components; (iv) that there exists a sufficient number of Comparable Companies for analysis; (v) that the Valuer has confirmed that the comparable companies selected by it for the Valuation Report represent an exhaustive list based on its best knowledge and information available; and (vi) that the valuation methodologies with reference to comparable companies are commonly used and consistent with industry practice as advised by the Valuer, the Board is of the view that the Comparable Companies provide objective benchmarks for valuing the fair value of 100% equity interest of the Target Group and the selection criteria adopted by the Valuer in identifying the Comparable Companies are appropriate. The Board concurs with the Valuer and considers that the Comparable Companies are appropriate to identify a set of fair and representative comparables to value the Target Group and are exhaustive on best effort basis.

Selection of price multiple

With reference to the Valuation Report, we understand that the Valuer has considered various price multiples, including the price-to-book value ratio ("**PB ratio**"), the price-to-sales ratio ("**PS ratio**") and the price-to-earnings ratio ("**PE ratio**"). The Valuer adopted the mean PE ratio of the Comparable Companies in determining the fair value of 100% equity interest of the Target Group. As advised by the Valuer and having considered that (i) the PB ratio is not appropriate for the valuation of the Target Group which has its abilities to generate future income streams; (ii) PS ratio is not appropriate for the valuation of the Target Group as revenues may not consider the cost structure and profitability; (iii) PE ratio is commonly used valuation multiple for valuing equity value of companies; (iv) the Comparable Companies are engaged in the similar industry or industry with similar characteristics, the Board considers that the adoption of PE ratio of 12.55 as valuation multiple is appropriate.

Valuation adjustment

The Board noted that the Valuer has not applied any marketability discount in appraising the value of the Target Group. The Board concurs with the Valuer's view that discount for lack of marketability is not necessary in this case given that (i) Hong Kong is one of the world leading production and trading hubs of watch in the world with watch assemblers well served with a variety of high-quality watch parts and components. Many Hong Kong based companies are participating in the watch production industry with internationally renowned reputation and attract investors' interest; (ii) comparing to minority stake in publicly listed companies, minority stake in private companies, particularly those companies closely held by a handful of major shareholders, are less appealing to investors as far as marketability is concerned. Facing with higher risk of major shareholder oppression, minority shareholding of a private company is normally trading at discount on prices of publicly traded stocks. The Acquisition involves the entire issued share capital and the Company shall have full control of the Target Group upon Completion.

Therefore, such potential risk can be disregarded; and (iii) unlike stocks such as tech stocks which are highly participated by retail investors who are mostly looking for short term gains and willing to pay for premium share prices to facilitate high stock turnover, industrial stocks particularly those companies engaged in manufacturing are largely held by dedicated institutional investors which mostly invest for long horizon and are less likely to pay for share price deviated from fundamental values. Therefore, the price gap between shares of a private company and shares of a public listed company engaging in manufacturing businesses is considered to be relatively narrow.

(iii) the assumptions and basis used in the valuation

The Valuer has advised the general assumptions of the valuation are those commonly adopted in other business valuations in the market. The Board has also reviewed the assumptions adopted for the Valuation Report. The Board considers that the assumptions adopted by the Valuer are fair and reasonable.

The Board's assessment on the fairness and reasonableness of the Consideration

The Board has cautiously reviewed the relevant basis, assumptions and methodology of the valuation. The Valuer has confirmed that the valuation is conducted in accordance with relevant valuation standards, and that after taking into account all factors, the Valuer is of the view that the scope and their selection of the Comparable Companies provide a meaningful and objective basis and give the Valuer sufficient information to reach a conclusion on the fair and market value of the entire equity interest of the Target Group. The Board, after considering the Valuer's view, is of the view that the fair value of the Sale Shares of the Target Group is a reasonable estimate of the value of the 100% equity interest in the Target Group. Based on the discussions above and taking into account that (i) the market approach is commonly used and most appropriate method for deriving the fair value of 100% equity interest of Target Group as set out above; (ii) the selection criteria adopted by the Valuer in identifying the Comparable Companies are considered appropriate and the Valuer's view that the Comparable Companies represent a set of fair and representative comparables to value the Target Group and are exhaustive on best effort basis; (iii) it is appropriate to apply the PE ratio for the valuation of 100% equity interest of the Target Group; and (iv) the Consideration of HK$140,000,000 represents a slight discount of approximately 6.43% to the appraised fair value of 100% equity interest of Target Group of approximately HK$149,000,000, the Board, after considering the Valuer's view, considers that the Valuation Report is appropriate to be adopted as a reference to the determination of the Consideration and that the Consideration was suitably determined with reference to the Valuation Report and was therefore fair and reasonable.

THE CONSIDERATION SHARES

The Consideration Shares will be allotted and issued at the Issue Price of HK$2.6 each, credited as fully paid. The Consideration Shares, when allotted and issued, shall rank pari passu in all respects with the Shares in issue on the date of allotment and issue of the Consideration Shares including the right to all dividends, distributions and other payments made or to be made, on the record date which falls on or after the date of such allotment and issue.

The Issue Price of HK$2.6 per Consideration Share represents:

(a) a premium of approximately 18.18% over the closing price of the Shares of HK$2.20 per Share as quoted on the Stock Exchange on the Last Trading Day;

(b) a premium of approximately 20.37% over the average closing price of the Shares of HK$2.16 per Share as quoted on the Stock Exchange for the five (5) consecutive trading days up to and including the Last Trading Day;

(c) a premium of approximately 20.65% over the average closing price of the Shares of HK$2.155 per Share as quoted on the Stock Exchange for the ten (10) consecutive trading days up to and including the Last Trading Day;

(d) a premium of approximately 8.33% over the closing price of the Shares of HK$2.4 per Share as quoted on the Stock Exchange on 6 March 2023, being the Latest Practicable Date; and

(e) a premium of approximately 766.67% over the net assets value per Share of approximately HK$0.30 based on the latest published unaudited total net asset value of the Group of approximately HK$102,969,000 as at 30 June 2022 as and the issued share capital of the Company of 347,437,000 Shares as at 30 June 2022.

The Consideration Shares, being 38,461,538 new Shares (assuming no adjustment pursuant to the Profit Guarantee will be made), represent (i) approximately 11.07% of the existing issued share capital of the Company as at the Latest Practicable Date; and (ii) approximately 9.97% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares (assuming there will be no change to the total number of Shares in issue from the Latest Practicable Date to the date of issue of the Consideration Shares in full other than the issue of the Consideration Shares by the Company). The Vendor is not expected to become a substantial shareholder of the Company upon Completion and the allotment and issue of the Consideration Shares will not result in a change of control of the Company.

The aggregate nominal value of the Consideration Shares is HK$384,615.38.

The Issue Price was determined after arm's length negotiations among the parties taking into account, among other things, (i) the prevailing market price of the Shares in the last ten trading days before the date of the Agreement; (ii) the settlement of the Consideration by the allotment and issue of the Consideration Shares helps to maintain the cash level and reduce the finance costs of the Group in relation to the Acquisition. The Directors consider that the Issue Price is fair and reasonable and in the interest of the Company and the Shareholders as a whole.

The Consideration Shares will be allotted and issued pursuant to the General Mandate. Under the General Mandate, the Directors are allowed to allot and issue up to 69,487,400 Shares, representing 20% of the issued share capital of the Company as of the date on which the General Mandate was granted. As at the Latest Practicable Date, no Share has been issued and allotted under the General Mandate. Accordingly, the allotment and issue of the Consideration Shares is not subject to Shareholders' approval.

The Company will apply to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares.

Lock-up of Consideration Shares

All Consideration Shares shall be subject to a lock-up period of eighteen (18) calendar months from the date of issue during which the Vendor shall not transfer, charge, encumber or dispose of any such Consideration Shares without the consent of the Purchaser.

EFFECT ON SHAREHOLDING STRUCTURE OF THE COMPANY

Set out below is the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) upon Completion; and (iii) immediately upon the allotment and issuance of all the Consideration Shares (assuming there will not be any change in the issued share capital of the Company from the Latest Practicable Date up to and including the date of allotment and issue of the Consideration Shares with no adjustment being made):

Shareholders	As at the Latest Practicable Date		Upon Completion		Immediately upon the allotment and issuance of all the Consideration Shares (assuming there will not be any change in the issued share capital of the Company from the Latest Practicable Date up to and including the date of allotment and issue of the Consideration Shares with no adjustment being made)	
	Number of shares	*Approximate % of issued Shares*	*Number of shares*	*Approximate % of issued Shares*	*Number of shares*	*Approximate % of issued Shares*
Mr. Hon Kwok Lung[(1)]	222,634,485	64.08	222,634,485	64.08	222,634,485	57.69
Ms. Xu Hong[(2)]	37,935,000	10.92	37,935,000	10.92	37,935,000	9.83
Vendor	—	—	—	—	38,461,538	9.97
Other public shareholders	86,867,515	25.00	86,867,515	25.00	86,867,515	22.51
Total	347,437,000	100.00	347,437,000	100.00	385,898,538	100.00

Notes:

(1) Of the 222,634,485 Shares in the issued share capital of the Company, 217,834,485 Shares are directly held by VGB Limited and 4,800,000 Shares are directly held by Full Day Limited ("**Full Day**"). VGB Limited is wholly-owned and controlled by Citychamp. Citychamp is the controlled corporation of each of Sincere View International Limited ("**Sincere View**") and Full Day. Accordingly, each of Citychamp, Sincere View and Full Day is deemed to be interested in the Shares held by VGB Limited under Part XV of the SFO. Mr. Hon Kwok Lung held the entire issued share capital of Full Day. Sincere View is the controlled corporation of each of Mr. Hon Kwok Lung and his spouse, Ms. Lam Suk Ying. Accordingly, Mr. Hon Kwok Lung is deemed to be interested in 222,634,485 Shares. Mr. Hon Kwok Lung and Ms. Lam Suk Ying also directly held 3,500,000 shares and 1,374,000 shares in the issued share capital of Citychamp, respectively.

(2) 37,935,000 Shares in the issued share capital of the Company were directly held by Prime Route Investment Limited ("**Prime Route**"). Prime Route is a company wholly-owned and controlled by Ms. Xu Hong. Ms. Xu Hong is therefore deemed to be interested in the Shares held by Prime Route under Part XV of the SFO.

TARGET RESTRUCTURING

As at the date of the Agreement, the Target Company directly held and owned 100% equity interest in the Disposal Subsidiary and the PRC Subsidiary and 60% equity interest in the HK Subsidiary. Pursuant to the terms and conditions of the Agreement, the Target Company shall undergo the Target Restructuring which includes (i) the disposal of the Disposal Subsidiary; and (ii) the transfer of 40% of the equity interest in the HK Subsidiary from the HK Subsidiary Shareholder to the Target Company.

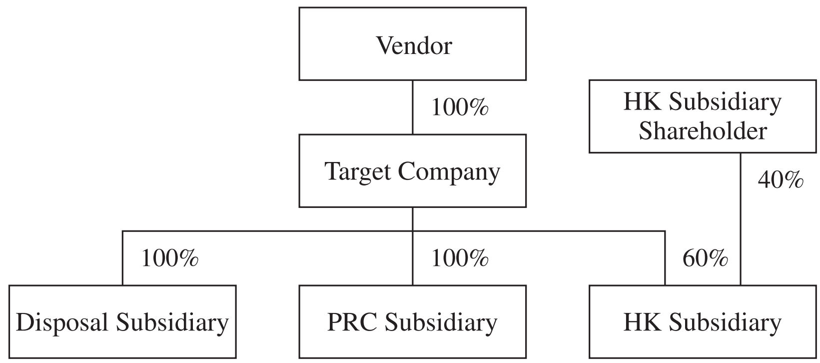
The Disposal Subsidiary is engaged in manufacturing of copper watches cases and provision of watch assembly services businesses. Given that (i) the Disposal Subsidiary does not form part of the core business of design, development and manufacturing of stainless steel alloy watches cases, smart watch cases and smart phone components on ODM or OEM basis that the Purchaser intends to acquire; and (ii) the Disposal Subsidiary was not taken into account in determining the Consideration, the Target Company shall dispose of all its equity interest in the Disposal Subsidiary before the Completion.

Completion of Target Restructuring is one of the conditions precedents to Completion under the Agreement. Upon completion of the Target Restructuring, the Target Company will own the entire equity interests in the HK Subsidiary and will cease to hold any interest in the Disposal Subsidiary. The results, assets and liabilities of (i) the HK Subsidiary will continue to be consolidated into the financial statements of the Target Group and hence of the Group; and (ii) the Disposal Subsidiary will not be consolidated into the financial statements of the Group upon Completion.

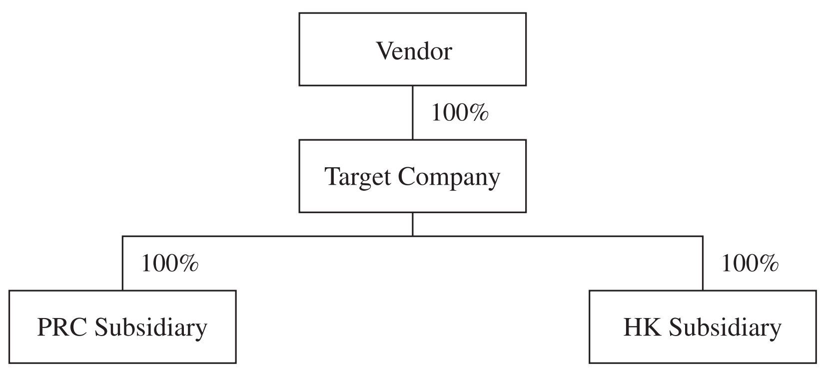
As at the Latest Practicable Date, the Target Restructuring was completed.

Set out below are the corporate structure of the Target Company (i) as at the date of the Agreement; and (ii) upon completion of the Target Restructuring and as at the Latest Practicable Date:

(i) As at the date of the Agreement



(ii) Upon completion of the Target Restructuring and as at the Latest Practicable Date



INFORMATION ON THE PARTIES

Information on the Purchaser and the Group

The Group is principally engaged in the design, manufacture, marketing and sale of Swiss-made mechanical and quartz premium watches for men and women. The Purchaser is a company established in the British Virgin Islands with limited liability and a direct wholly-owned subsidiary of the Company and is engaged in investment holding.

Information on the Vendor

The Vendor is a company incorporated in Hong Kong with limited liability and is principally engaged in manufacturing of watches and related accessories in the PRC. As at the Latest Practicable Date, the Vendor is indirectly owned as to 25% by Citychamp, a substantial shareholder of the Company. The ultimate controlling shareholder of Citychamp is Mr. Hon Kwok Lung who is interested in approximately 69.65% of the total issued share capital of Citychamp as at the Latest Practicable Date. The other shareholders of the Vendor are Mr. Chan, Ms. Yeung Yuk Kwan and Peaceful Consultants Ltd. (which is wholly owned by Mr. Yang Hua), holding 41%, 10% and 24% of the issued share capital of the Vendor, respectively.

INFORMATION ON THE TARGET GROUP

The Target Company is a company incorporated in Hong Kong with limited liability and is wholly-owned by the Vendor as at the Latest Practicable Date. The Target Company is principally engaged in investment holding. The HK Subsidiary is principally engaged in distribution of watches and timepieces. The PRC Subsidiary is principally engaged in design, development and manufacturing of stainless-steel alloy watches cases, smart watch cases and smart phone components on ODM or OEM basis. Customers of the PRC Subsidiary provide their product requirements and information, and the PRC Subsidiary will conduct project evaluation, quotation and review. The PRC Subsidiary will start the product order review, including reviewing the product requirements, capabilities to meet the testing standards, supplier capabilities, production capacity, capabilities to provide the required delivery and post-delivery service, capabilities to meet the product regulatory requirements, transaction conditions, etc., and conduct evaluation based on the trial results of the product samples. After the customer accepts the quotation and the order review, the PRC Subsidiary will formally start to develop, design and manufacture the product. The PRC Subsidiary inspects the products and arranges for shipments, and the customer conducts quality inspections after receiving the products. As confirmed by the Target Company and to the best of the Directors' knowledge, information and belief, all customers of the Target Group are independent of and not connected with the Target Group, the Company and their respective connected persons. As at the Latest Practicable Date, the PRC Subsidiary owned 19 patents, 17 of which were registered and 2 of which were under approval, in the PRC which are mainly related to manufacturing tools for grinding, polishing, assembly etc. and designs of watch cases and watch straps.

The following tables set out the background information about the expected five largest customers of the Target Group for the three years ending 31 December 2025:

	Principal business activities	Approximate estimated percentage to revenue of the Target Group for the three years ending 31 December 2025
The Customer	The Vietnam production base of a company listed on Taiwan Stock Exchange. The Customer and its group companies are the second largest contract laptop manufacturer in the world as at the Latest Practicable Date and the OEM of the smart watch of the Ultimate Client, which has started its long-term strategic deployment of smart watches in light of the general trend of wearable devices.	55.1%
Customer B	A multinational company headquartered in South Korea and its group companies that engage in multiple fields such as electronics, finance, machinery, and chemistry. It is one of the world's largest producers of electronic devices.	30.5%
Customer C	A PRC private company and its group companies that focus on research and development of professional sports products, including development, design, production and sales of smart wearable devices.	5.3%
Customer D	A PRC company listed on the New York Stock Exchange which engages in the production of smart wearable devices. As at the Latest Practicable Date, Customer D was one of the three largest smart wearable and health technology companies in the world in terms of product shipments.	4.5%

	Principal business activities	Approximate estimated percentage to revenue of the Target Group for the three years ending 31 December 2025
Customer E	A PRC company listed on the Science and Technology Innovation Board of the Shanghai Stock Exchange and its group companies which engage in provision of cloud services, design, development, production and sales of smart home products such as smart home cameras, smart door locks, smart robots, etc.	2.3%
Total		**97.7%**

Financial Information of the Target Group, the Target Company, the HK Subsidiary and the PRC Subsidiary

Set out below is the financial information of the Target Group, the Target Company and the HK Subsidiary prepared in accordance with the generally accepted accounting principles of Hong Kong:

Target Group

	30 September 2022	**31 December 2021**	**31 December 2020**
	HK$'000	*HK$'000*	*HK$'000*
	(audited)	(audited)	(audited)
Revenue	154,107	55,646	98,417
Net profit/(loss) before tax	22,305	(27,851)	(16,456)
Net profit/(loss) after tax	15,623	(20,526)	(11,671)

As at 31 December 2021, the audited net liabilities of the Target Group were approximately HK$74,420,000. As at 30 September 2022, the audited net liabilities of the Target Group were approximately HK$59,314,000.

Target Company

	30 September 2022	31 December 2021	31 December 2020
	HK$'000	*HK$'000*	*HK$'000*
	(unaudited)	(audited)	(audited)
Revenue	—	—	—
Net profit/(loss) before tax	(4,956.87)	1,233.89	2,976.97
Net profit/(loss) after tax	(4,956.87)	1,233.89	2,976.97

As at 31 December 2021, the audited net liabilities of the Target Company were approximately HK$15,005,726. As at 30 September 2022, the unaudited net liabilities of the Target Company were approximately HK$19,962,600.

HK Subsidiary

	30 September 2022	31 December 2021	31 December 2020
	HK$'000	*HK$'000*	*HK$'000*
	(unaudited)	(audited)	(audited)
Revenue	2,890.10	10,250.17	11,651.75
Net profit/(loss) before tax	(52.11)	110.91	(399.41)
Net profit/(loss) after tax	(52.11)	110.91	(363.43)

As at 31 December 2021, the audited net assets of the HK Subsidiary were approximately HK$1,756,738. As at 30 September 2022, the unaudited net assets of the HK Subsidiary were approximately HK$1,704,623.

Set out below is the financial information of the PRC Subsidiary prepared in accordance with the generally accepted accounting principles of the PRC:

PRC Subsidiary

	30 September 2022	31 December 2021	31 December 2020
	RMB'000	*RMB'000*	*RMB'000*
	(unaudited)	(audited)	(audited)
Revenue	130,450.50	58,143.48	100,017.85
Net profit/(loss) before tax	22,471.23	(18,432.75)	(18,996.38)
Net profit/(loss) after tax	22,471.23	(18,432.75)	(18,996.38)

As at 31 December 2021, the audited net liabilities of the PRC Subsidiary were approximately RMB22,978,580. As at 30 September 2022, the unaudited net liabilities of the PRC Subsidiary were approximately RMB2,236,413.

REASONS FOR AND BENEFITS OF THE ACQUISITION

The Group is principally engaged in the design, manufacture, marketing and sale of Swiss-made mechanical and quartz premium watches for men and women. The Target Group is principally engaged in the business of design, development and manufacturing of stainless-steel alloy watches cases, smart watch cases on ODM or OEM basis. The intention of the Acquisition is to diversify the business scope of the Group. It provides an attractive opportunity for the Company to enhance its future development to participate in the manufacturing and sales of smart watch components and hence, strengthen its revenue basis. The Directors believe that the smart watch market has promising growth potential and strong market demand. The Acquisition allows the Group to capture the opportunities in the smart watch market, enhance the growth potential of the Group and maximise returns to the Shareholders. The Group has no intention, arrangement, agreement, understanding or negotiation to downsize or dispose of its existing businesses.

Although the PRC Subsidiary recorded net liabilities of approximately RMB23 million as at 31 December 2021, as disclosed in the paragraph headed "Profit Guarantee and Adjustment of Consideration" in the section headed "Letter from the Board" in this circular, the PRC Subsidiary recorded unaudited revenue of approximately RMB22.5 million for the nine months ended 30 September 2022 and such improvement in the financial performance is expected to continue based on the sales forecast according to the sales contracts on hand and the positive outlook of the smartwatch market. The net losses recorded by the Target Group for the financial years ended 31 December 2020 and 2021 were due to (a) the depressed market sentiment caused by the global outbreak of the COVID-19 pandemic; (b) the initial investment in R&D at the early stage of the technology development; and (c) the investment in purchasing advanced manufacturing equipment for the development of watch cases at the early stage. Considering (a) the improvement of market sentiment, the growth in the smartwatch market and the new business opportunities; (b) the increasing number of sales orders and the sales contracts on hand of the PRC Subsidiary; (c) the 17 registered patents and leading technologies owned by the PRC Subsidiary which presents a strong competitive advantage; and (d) the Profit Guarantee which serves to safeguard interests of the Company and the Shareholders, the Directors (including the independent non-executive Directors) consider that the terms of the Acquisition are fair and reasonable, on normal commercial terms and the Acquisition is in the interests of the Company and the Shareholders as a whole.

The Group will supervise and strengthen the control of the operations of the Target Group. The Group will review both operational and financial performances of the Target Group on a monthly basis. The Board has extensive experience in the watch manufacturing and distribution industry in general to manage the Target Group. The current management team of the Target Group will stay and continue to be responsible for the core management and day-to-day operation of the Target Group.

Mr. Teguh Halim, the chairman of the Board and the executive Director, is an executive director of Citychamp and a director of the Target Company. Mr. Teguh Halim is deemed to have material interest in and has therefore abstained from voting on the resolutions of the Board approving the Agreement and the transactions contemplated thereunder.

FINANCIAL EFFECTS OF THE ACQUISITION

Upon Completion, the Target Company will become an indirect wholly-owned subsidiary of the Company and the result of the Target Group will be consolidated into the consolidated financial statements of the Group.

The unaudited pro forma financial information of the Enlarged Group is set out in Appendix III to this circular for illustrative purposes, which was prepared based on the unaudited pro forma statement of assets and liabilities of the Enlarged Group as if the Acquisition and the transactions contemplated therein had been completed on 30 June 2022. According to the unaudited pro forma financial information, the financial effects of the Acquisition on the Group is summarised as follows:

Earnings

Based on the financial information of the Target Company for the three years ended 31 December 2021 and the nine months ended 30 September 2022 as set out in Appendix II to this circular (assuming the Target Restructuring has been completed), revenue of the Target Company was approximately HK$133.5 million, HK$98.4 million, HK$55.6 million and HK$154.1 million, respectively. The net profit/(loss) after tax of the Target Company for the three years ended 31 December 2021 and the nine months ended 30 September 2022 was net profit after tax of approximately HK$5.1 million, net loss after tax of HK$11.7 million, net loss after tax of HK$20.5 million and net profit after tax of HK$15.6 million, respectively. Based on the above, the consolidation of the Target Company into the Group is expected to improve and continue to positively affect the revenue and profitability of the Group.

Assets and liabilities

As explained in the unaudited pro forma financial information contained in Appendix III to this circular, assuming the Acquisition has been completed on 30 June 2022, the total asset of the Enlarged Group as at 30 June 2022 will increase from approximately HK$454.6 million to approximately HK$807.6 million on a pro forma basis, and the total liabilities of the Enlarged Group as at 31 December 2021 will increase from approximately HK$351.7 million to approximately HK$674.1 million on a pro forma basis. The net asset of the Enlarged Group will increase from approximately HK$103.0 million to approximately HK$133.5 million on a pro forma basis.

Upon Completion, it is expected that the revenue and profit of the Group will increase. Given that the business prospect of the Target Company has synergy with the business of the Company, and it has extensive experience in manufacturing and sales of smart watches cases, it is expected that the Acquisition will make a positive contribution to the financial performance and trading prospects of the Enlarged Group in the future.

Further details of the financial effect of the Acquisition together with the bases and assumptions taken into account in preparing the unaudited pro forma financial information of the Enlarged Group are set out, for illustration only, in Appendix III to this circular.

LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratio (as defined under Rule 14.07 of the Listing Rules) in respect of the Acquisition is more than 25% but all are less than 100%, the Acquisition constitutes a major transaction of the Company under Chapter 14 of the Listing Rules and is subject to the reporting, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

As at the Latest Practicable Date, Citychamp holds 25% interest in the Vendor. To the best of the Directors' knowledge, information and belief, there are loan arrangements between the Vendor (as lender) and Citychamp (as borrower) of HK$36.9 million (the "**Loan**") in the past twelve months of the Acquisition. The Company confirms that the Loan will not be used to settle the Consideration (or vice versa) and the Consideration will not be used by the Vendor to provide the Loan or any further loan arrangements with Citychamp. The Company further confirms that the Loan is not in any way connected with the Acquisition.

To the best of the Directors' knowledge, information and belief, the Loan was made between Citychamp and the Vendor (which were separately legally represented) on an arm's length basis pursuant to formal loan agreements on normal commercial terms after taking into account the prevailing market interest rates from time to time. The Loan has been fully repaid by Citychamp in December 2022. As the Loan is a completely separate arrangement with the Acquisition, Citychamp does not stand to benefit from its interest in the Loan in respect of the Acquisition. There will be no benefit passing from the Company to Citychamp and no advantage derived from the Acquisition will be enjoyed by Citychamp in the context of the Loan.

The Company was not involved in the negotiations on the Loan. The Acquisition was a project identified by the Company and was a project identified by and executed under the collective decisions and leadership of the Board. Citychamp or its representatives did not take part in the structuring, negotiation, implementation and/or approval process of the Acquisition. Mr. Teguh Halim, the chairman of the Board and an executive Director, has abstained from voting on the Board resolution in relation to the Acquisition due to his position as an executive director of Citychamp and a director of the Vendor. Citychamp will also abstain from voting on the resolution(s) to be proposed at the EGM to approve the Acquisition. As the minority Shareholders will decide whether the Acquisition shall proceed, this is not the case that Citychamp may take advantage of its shareholding to the detriment of minority Shareholders. Citychamp was not in a position to and did not exercise significant influence over the Acquisition.

The Company considers that the Vendor is an Independent Third Party and the Acquisition is not a connected transaction, after taking into account the following factors:

(i) Citychamp only holds 25% equity interest and is solely a passive investor in the Vendor. Citychamp had only participated in the affairs of the Vendor as a minority shareholder exercising its shareholder's rights including right to approve financial statements, right to dividend and voting rights at a shareholders' meeting etc.. Citychamp or its representative has not participated in the management and the day-to-day decisions of the Vendor and has no significant influence over the Vendor. Mr. Teguh Halim only sits on the board of directors of the Vendor as an observer and representative of Citychamp, playing a passive role in overseeing the Vendor's results and safeguarding Citychamp's interest. Mr. Chan and his spouse Ms. Yeung Yuk Kwan together hold 50% equity interest in the Vendor. The Vendor is controlled and managed by Mr. Chan, who is a director and the controller of the Vendor responsible for making the strategic decisions and monitoring the business and performance of the Vendor. The senior management of the Vendor is responsible for the day-to-day management and operations of the Vendor. To the best of the Directors' knowledge, information and belief after having made all reasonable enquiries, Mr. Chan and the senior management of the Vendor are Independent Third Parties. Any plan or transaction of the Vendor will be considered and approved by the senior management of the Vendor and Mr. Chan independent from and without the influence of Citychamp;

(ii) to the best the Directors' knowledge, information and belief, Citychamp and Mr. Chan, who is one of the leading OEM manufacturers in Southern China, are merely business acquaintances. Other than the Vendor, Citychamp has no other interests in the companies, the businesses or properties of Mr. Chan. As confirmed by the Vendor and to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, save as disclosed in this circular, there are no other family relationships or business arrangements between (i) Citychamp and (ii) the senior management, the directors and the shareholders of the Vendor (including Mr. Chan);

(iii) the Loan is separate from and has no connection with the Acquisition. As disclosed above, the Loan was separately negotiated and was made between Citychamp and the Vendor on an arm's length basis. The Loan has been fully repaid by 31 December 2022. The Loan has its own commercial rationale and was entered into in a context entirety separate from those pertaining to the Acquisition. The Loan and the Acquisition are two distinct endeavours which were entered into for specific reasons and are intended to achieve their own purposes;

(iv) the negotiations on the Acquisition have been conducted on an arm's length basis between the Company and Mr. Chan. Citychamp has no significant influence on the Acquisition and has not participated in any preliminary discussion and negotiations on the terms of the Agreement and the Acquisition. Citychamp (which will abstain from voting at the EGM) and Mr. Teguh Halim did not and will not take part in the decision-making process of the Acquisition of the Group and the Vendor;

(v) immediately upon the allotment and issuance of all the Consideration Shares (assuming there will not be any change in the issued share capital of the Company from the Latest Practicable Date up to and including the date of allotment and issue of the Consideration Shares with no adjustment being made), Citychamp will still hold 57.69% of the enlarged issued share capital in the Company (as diluted). While Citychamp only holds 25% of the equity interest in the Vendor, taking into account the fact that the Loan has been repaid with the internal resources of the Citychamp, there is no ulterior advantage for Citychamp in the Acquisition as any transfer of benefits from the Company to the Vendor would represent a dilution of Citychamp's interest in such benefits;

(vi) there is also no arrangement that are designed to circumvent the spirit and intent of the connected transaction rules in this case, which are intended to regulate transactions involving persons who can exert sufficient control over or are in sufficient proximity to the transaction. Citychamp only has a 25% interest in the Vendor which is below the 30% threshold for a connected transaction imposed by the Listing Rules, meaning Citychamp's interest or involvement in the Vendor does not infer a sufficient proximity; and

(vii) the Consideration was adjustable based on the performance of the Target Group and was determined after arm's length negotiations between the Purchaser and the Vendor after taking into account, among others, the business overview and prospect of the Target Group and the Valuation Report.

EGM

The EGM will be convened and held at 10/F., United Centre, 95 Queensway, Admiralty, Hong Kong on Wednesday, 29 March 2023 at 3:00 p.m. for the Shareholders (other than Citychamp and its associates) to consider and, if thought fit, approve the Agreement (as amended and supplemented by the Supplemental Agreement) and the transactions contemplated thereunder.

To the best of the directors' knowledge, information and belief having made all reasonable enquiry, Citychamp has no control and significant influence on the Vendor and/or the Target Group, and the Vendor is controlled by Mr. Chan and Ms. Yeung Yuk Kwan (the spouse of Mr. Chan), holding 41% and 10% of the Vendor respectively. However, in view of Citychamp's 25% interest in the Target Company, it is considered to have a material interest in the Acquisition. Accordingly, Mr. Hon Kwok Lung, the ultimate beneficial owner of Citychamp and the Company, Citychamp and their close associates, namely, Ms. Lam Suk Ying, VGB Limited, Full Day Limited and Sincere View International Limited (which held 222,634,485 Shares in total, representing 64.08% of the issued share capital of the Company) are required to abstain from voting on the resolution(s) approving the Agreement and the transactions contemplated thereunder at the EGM.

Save as disclosed above, to the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, as at the Latest Practicable Date, no Shareholder has a material interest in the Acquisition, and thus no Shareholder is required to abstain from voting at the EGM.

Pursuant to Rule 13.39(4) of the Listing Rules, any vote of shareholders at a general meeting must be taken by poll. Therefore, all resolutions proposed at the EGM shall be voted by poll in accordance with the Listing Rules and the articles of association of the Company. The poll results will be announced in accordance with Rule 13.39(5) of the Listing Rules after the conclusion of the EGM.

A form of proxy for the EGM is enclosed with this circular. Whether or not you intend to be present at the EGM, you are advised to read the notice and to complete the form of proxy and return it to the branch share registrar of the Company, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong in accordance with the instructions printed thereon not less than 48 hours before the time fixed for the EGM. The completion of a form of proxy will not preclude you from attending and voting at the EGM in person and any adjourned meeting thereof should you so wish, and in such event, the form of proxy shall be deemed to be revoked.

RECOMMENDATION

The Directors (including the independent non-executive Directors) consider that the Acquisition is on normal commercial terms, and the terms of the Agreement (as amended and supplemented by the Supplemental Agreement) and the transactions contemplated thereunder are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors (including the independent non-executive Directors) recommend the Shareholders to vote in favour of the relevant resolution(s) to be proposed at the EGM to approve the Agreement (as amended and supplemented by the Supplemental Agreement) and the transactions contemplated thereunder.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices to this circular.

WARNING

Shareholders and potential investors of the Company should be aware that the Acquisition is subject to conditions to be satisfied, and consequently the Acquisition may or may not proceed. Accordingly, Shareholders and potential investors are advised to exercise caution when dealing or contemplating dealing in the securities of the Company.

Yours Faithfully,
For and on behalf of the Board
Ernest Borel Holdings Limited
Teguh Halim
Chairman

1. FINANCIAL INFORMATION OF THE GROUP

The published audited consolidated financial statements of the Group for each of the three years ended 31 December 2019, 2020 and 2021 and the unaudited consolidated financial statements for the six months ended 30 June 2022 are disclosed in the following documents, which are available on the website of the Stock Exchange (www.hkexnews.hk) and the website of the Company (http://www.ernestborel.ch).

Annual report for the year ended 31 December 2019 (pages 45 to 109):
https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0422/2020042201412.pdf

Annual report for the year ended 31 December 2020 (pages 54 to 111):
https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0426/2021042601024.pdf

Annual report for the year ended 31 December 2021 (pages 60 to 119):
https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0425/2022042501053.pdf

Interim report for the six months ended 30 June 2022 (pages 19 to 36):
https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0922/2022092200739.pdf

2. INDEBTEDNESS

As at the close of business on 31 January 2023, being the latest practicable date for the purpose of preparing the indebtedness statement prior to the printing of this circular, the Enlarged Group had indebtedness totalling approximately HK$296,658,000, details of which are set out below:

	Approximately HK$'000
Secured and guaranteed	
Bank borrowings	16,883
Unsecured and unguaranteed	
Other loans	15,888
Amount due to a director	2,319
Amounts due to fellow subsidiaries	221,300
Amounts due to related parties	31,185
Lease liabilities	9,083
	296,658

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities, none of the members of the Enlarged Group had any other debt securities issued and outstanding, or authorised or otherwise created but unissued, any term loans, any other borrowings or indebtedness in the nature of borrowing, including bank overdrafts and liabilities under acceptances (other than normal trade bills) or acceptance credits or hire purchase commitments, which were either guaranteed, unguaranteed, secured and unsecured, any mortgages and charges or any contingent liabilities or guarantees at the close of business on 31 January 2023, being the latest practicable date for the purpose of preparing this statement of indebtedness prior to printing of this circular.

As at 31 January 2023, being the latest practicable date for the purpose of preparing this statement of indebtedness, the Enlarged Group had unutilised bank facilities of approximately HK$36.5 million.

For the purpose of this statement of indebtedness, foreign currency amounts have been translated into HK$ at the appropriate exchange rates prevailing as at the close of business on 31 January 2023.

The Directors confirm that, save as disclosed therein, there has not been any material change in the indebtedness, contingent liabilities and commitments of the Enlarged Group since 31 January 2023.

3. WORKING CAPITAL

The Directors, after due and careful enquiry, are of the opinion that, after taking into account the Agreement, the Acquisition contemplated thereunder and the present financial resources available to the Enlarged Group, including internally generated funds, and other available banking and other facilities, the Enlarged Group will have sufficient working capital to meet its present requirements for at least 12 months from the date of this circular.

The Company has obtained the relevant confirmation as required under Rule 14.66(12).

4. MATERIAL ADVERSE CHANGE

As disclosed in the announcement of the Company dated 27 March 2022 (the "**Profit Warning Announcement**"), it was expected that the Group would record a net loss of approximately HK$32 million for the year ended 31 December 2021 as compared to a net profit of approximately HK$1.3 million for the year ended 31 December 2020, primarily attributable to weak consumer market sentiment and an increase in distribution and administrative expenses during the year ended 31 December 2021.

As at the Latest Practicable Date, save as those disclosed in the Profit Warning Announcement, the annual report of the Company published on 25 April 2022 and the interim report of the Company published on 22 September 2022, there has been no material adverse change in the financial or trading position of the Group since 31 December 2021, being the date to which the latest published audited consolidated financial statement of the Company were made up.

5. FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP

The Group is principally engaged in the design, manufacture, marketing and sale of Swiss-made mechanical and quartz premium watches for men and women. According to the Group's annual report for the year ended 31 December 2021, the Company has been prepared for future opportunities with the aim of expanding its earnings and generating valuable and sustainable returns for its shareholders in the long term.

For the six months ended 30 June 2022, the Group recorded a revenue of approximately HK$59.4 million, representing a decrease of approximately 25.9% of that for the six months ended 30 June 2021. Gross profit and gross profit margin of the Group for the six months ended 30 June 2022 decreased from HK$55.8 million to approximately HK$39.1 million and decreased from approximately 69.6% to approximately 65.8% respectively. The decrease was mainly due to the resurgence of pandemic in various cities in China which hit hard on consumer market, putting domestic demands under pressure in the first half of 2022. The unstable economic fundamentals led to residents' increased awareness of precautionary saving and decreased consumer market activities when compared to the corresponding period last year, resulting in the fluctuations of retail market. While, in the long run, China's consumer market is still resilient. In the long term, the Group will continue to seek different channels to generate sales revenue and closely control the Group's operating costs in terms of sales, purchasing, and administrative expenses in order to achieve the goal of raising revenue and reducing expenditure. The Group will strengthen its production facilities and the supply chain to improve the cost effectiveness of its production process, increase the resilience of its operations and reduce reliance on third party suppliers.

The Target Group is principally engaged in the business of design, development and manufacturing of stainless-steel alloy watches cases, smart watch cases on ODM or OEM basis. Taking into consideration that (i) the smart watch market has promising growth potential and strong market demand; (ii) the business prospect of the Target Group has synergy effect with the business of the Group as the Target Group can supply the necessary watch cases and other components for the watch manufacturing of the Group, and it has extensive experience in manufacturing and sales of smart watches cases; and (iii) the Acquisition can diversify the business scope of the Group, the Directors is optimistic about the future development of the smart watches industry in which the Target Group operates and the development of the Enlarged Group. Upon the Completion of the Acquisition, the Enlarged Group will enter into the smart watches market, which will provide opportunities to diversify the revenue stream and improve the profitability of the Enlarged Group.

Based on the unaudited pro forma financial information of the Enlarged Group in Appendix III to this circular, assuming that Completion had taken place on 30 June 2022, the total assets of the Group would have increased from approximately HK$454.6 million to approximately HK$807.6 million on a pro forma basis, the total liabilities of the Group would have increased from approximately HK$351.7 million to approximately HK$674.1 million on a pro forma basis, and the net assets of the Group would have increased from approximately HK$103.0 million to approximately HK$133.5 million on a pro forma basis. Accordingly, the Group believes that its long-term business strategy can be substantiated and realised through the Acquisition, and that the potential business growth prospect of the Target Group would allow the Group to stand in good position as disclosed in the paragraph headed "Reasons for and benefits of the Acquisition" under the section headed "Letter from the Board" to this circular. The Board is optimistic about the future development in traditional stainless-steel watch cases and smart watch cases manufacturing business as well as the profitability of the Enlarged Group.

In the long run, the Enlarged Group will continue to evaluate suitable opportunities to expand the Group's various business segments with an aim to provide additional stable income streams. Apart from the Acquisition, the Group would continue to explore all business opportunities to diversify its income stream, expand its customer base and create value for the Shareholders.

The following is the text of report set out on pages II-1 to II-65, received from the Company's reporting accountant, BDO Limited, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

Tel : +852 2218 8288
Fax: +852 2815 2239
www.bdo.com.hk

25th Floor Wing On Centre
111 Connaught Road Central
Hong Kong

電話：+852 2218 8288
傳真：+852 2815 2239
www.bdo.com.hk

香港干諾道中111號
永安中心25樓

ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF ERNEST BOREL HOLDINGS LIMITED

Introduction

We report on the historical financial information of Gold Vantage Industrial Limited (the "**Target Company**") with its subsidiaries that are to remain as at the completion of proposed acquisition of the Target Company (hereinafter collectively referred to as the "**Target Group**") set out on pages II-5 to II-10, which comprises the combined statements of financial position of the Target Group as at 31 December 2019, 2020 and 2021 and 30 September 2022, the statement of the financial position of the Target Company as at 31 December 2019, 2020 and 2021 and 30 September 2022, 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 Target Group for each of the three years ended 31 December 2021 and the nine months ended 30 September 2022 (the "**Relevant Periods**") and a summary of significant accounting policies and other explanatory information (together the "**Historical Financial Information**"). The Historical Financial Information set out on pages II-4 to II-65 forms an integral part of this report, which has been prepared for inclusion in the circular of Ernest Borel Holdings Limited (the "**Company**") dated 13 March 2023 (the "**Circular**") in connection with the proposed acquisition of 100% equity interest in the Target Company (the "**Proposed Acquisition**").

Directors' responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation 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 the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 ''Accountants' Reports on Historical Financial Information in Investment Circulars'' issued by the Hong Kong Institute of Certified Public Accountants (the ''**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 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 combined financial positions of the Target Group as at 31 December 2019, 2020 and 2021 and 30 September 2022, and the financial positions of the Target Company as at 31 December 2019, 2020 and 2021 and 30 September 2022 and of the Target Group's combined financial performance and cash flows for the Relevant Periods in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information.

Review of stub period comparative historical financial information

We have reviewed the stub period comparative financial information of the Target Group which comprises 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 for the nine months ended 30 September 2021 and other explanatory information (the "**Stub Period Comparative Historical Financial Information**"). The directors of the Company are responsible for the preparation of the Stub Period Comparative Historical Financial Information in accordance with the basis of preparation set out in Note 2 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Comparative Historical Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing ("**HKSA**") and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purposes of the accountants' report, is not prepared, in all material respects, in accordance with the basis of preparation set out in Note 2 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on the Stock Exchange and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page II-4 have been made.

BDO Limited
Certified Public Accountants

Lui Chi Kin
Practising Certificate Number P06162
Hong Kong, 13 March 2023

I. HISTORICAL FINANCIAL INFORMATION OF THE TARGET GROUP

Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The financial statements of the Target Company and the financial statements of the Target Company's subsidiaries that are to remain as at the Completion of the Proposed Acquisition for the Relevant Periods, on which the Historical Financial Information is based, have been prepared in accordance with accounting policies which conform with International Financial Reporting Standards ("**IFRSs**") issued by the International Accounting Standards Board ("**IASB**") ("**Underlying Financial Statements**") and were audited by us in accordance with HKSA issued by the HKICPA.

COMBINED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	Year ended 31 December 2019 HK$'000	Year ended 31 December 2020 HK$'000	Year ended 31 December 2021 HK$'000	Nine months ended 30 September 2021 HK$'000 (Unaudited)	Nine months ended 30 September 2022 HK$'000
Revenue	*6*	133,481	98,417	55,646	42,720	154,107
Cost of sales		(105,023)	(94,237)	(58,630)	(44,728)	(112,694)
Gross profit/(loss)		28,458	4,180	(2,984)	(2,008)	41,413
Other gains and losses, net	*7*	(655)	2,989	1,546	253	6,163
Other income	*8*	942	78	85	64	1,240
Distribution expenses		(157)	(195)	(56)	(40)	(429)
Administrative expenses		(20,689)	(21,665)	(24,117)	(17,999)	(23,781)
Finance costs	*9*	(960)	(1,843)	(2,325)	(1,733)	(2,301)
Profit/(loss) before tax	*10*	6,939	(16,456)	(27,851)	(21,463)	22,305
Income tax (expense)/credit	*11*	(1,808)	4,785	7,325	5,546	(6,682)
Profit/(loss) for the year/period		5,131	(11,671)	(20,526)	(15,917)	15,623
Other comprehensive income						
Item that will be subsequently reclassified to profit or loss:						
Exchange differences arising on translation of foreign operations		(248)	20	(296)	(83)	(517)
Other comprehensive income for the year/period		(248)	20	(296)	(83)	(517)
Total comprehensive income for the year/period		4,883	(11,651)	(20,822)	(16,000)	15,106
Profit/(loss) for the year/period attributable to:						
— Equity holders of the Target Company		4,705	(11,526)	(20,570)	(15,827)	15,644
— Non-controlling interests		426	(145)	44	(90)	(21)
		5,131	(11,671)	(20,526)	(15,917)	15,623
Total comprehensive income for the year/period attributable to:						
— Equity holders of the Target Company		4,457	(11,506)	(20,866)	(15,910)	15,127
— Non-controlling interests		426	(145)	44	(90)	(21)
		4,883	(11,651)	(20,822)	(16,000)	15,106

COMBINED STATEMENTS OF FINANCIAL POSITION

	Notes	As at 31 December 2019	2020	2021	As at 30 September 2022
		HK$'000	HK$'000	HK$'000	HK$'000
Assets and liabilities					
Non-current assets					
Property, plant and equipment	15	42,525	46,920	36,984	28,763
Rental deposits	18	688	770	791	706
Prepayment for purchase of property, plant and equipment	18	1,452	—	—	—
Deferred tax assets	19	3,112	8,354	16,026	8,153
Investments in subsidiaries	16	—	—	—	—
		47,777	56,044	53,801	37,622
Current assets					
Inventories	17	22,208	19,712	13,363	12,359
Trade and other receivables	18	45,956	29,100	20,093	89,576
Amounts due from related companies	20	15,905	16,969	13,880	15,715
Amounts due from non-controlling interests	20	558	1,626	2,718	3,318
Tax recoverable		334	195	—	—
Cash and bank balances	21	6,766	11,337	2,742	5,126
		91,727	78,939	52,796	126,094
Current liabilities					
Trade and other payables	22	54,449	35,945	19,082	55,262
Bank and other loans	24	13,664	37,420	38,153	46,336
Amounts due to related companies	26	90,577	88,747	101,385	102,877
Amount due to a director	26	15,680	15,680	15,680	15,680
Lease liabilities	25	2,545	4,252	4,702	2,875
		176,915	182,044	179,002	223,030
Net current liabilities		(85,188)	(103,105)	(126,206)	(96,936)
Non-current liabilities					
Lease liabilities	25	4,536	6,537	2,015	—
Net liabilities		(41,947)	(53,598)	(74,420)	(59,314)
Equity					
Share capital	27	10	10	10	10
Reserves	28	(42,761)	(54,267)	(75,133)	(60,006)
Equity attributable to owners of the Target Company		(42,751)	(54,257)	(75,123)	(59,996)
Non-controlling interests		804	659	703	682
Capital deficiency		(41,947)	(53,598)	(74,420)	(59,314)

STATEMENT OF FINANCIAL POSITION OF THE TARGET COMPANY

		As at 31 December			As at 30 September
	Notes	**2019**	**2020**	**2021**	**2022**
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Assets and liabilities					
Non-current asset					
Investments in subsidiaries	*16*	47,500	47,179	38,029	38,029
		47,500	47,179	38,029	38,029
Current assets					
Amounts due from related companies		15,886	16,965	13,870	15,715
Cash and bank balances		922	830	607	568
		16,808	17,795	14,477	16,283
Current liabilities					
Other payables		66	66	87	120
Amounts due to related companies		85,122	85,122	91,410	94,972
Amount due to a director	*26*	15,680	15,680	15,680	15,680
		100,868	100,868	107,177	110,772
Net current liabilities		(84,060)	(83,073)	(92,700)	(94,489)
Net liabilities		(36,560)	(35,894)	(54,671)	(56,460)
Equity					
Share capital	*27*	10	10	10	10
Reserves		(36,570)	(35,904)	(54,681)	(56,470)
Capital deficiency		(36,560)	(35,894)	(54,671)	(56,460)

COMBINED STATEMENTS OF CHANGES IN EQUITY

	Equity attributable to owners of the Target Company						
	Share capital *HK$'000* *(Note 27)*	Statutory surplus reserve *HK$'000* *(Note 28(a))*	Translation reserve *HK$'000* *(Note 28(b))*	Accumulated losses *HK$'000* *(Note 28(c))*	Subtotal *HK$'000*	Non-controlling interests *HK$'000*	Total *HK$'000*
At 1 January 2019	10	—	4,916	(52,134)	(47,208)	378	(46,830)
Profit for the year	—	—	—	4,705	4,705	426	5,131
Transfer to statutory surplus reserve	—	661	—	(661)	—	—	—
Exchange differences arising from translations of foreign operations	—	—	(248)	—	(248)	—	(248)
At 31 December 2019 and 1 January 2020	10	661	4,668	(48,090)	(42,751)	804	(41,947)
Loss for the year	—	—	—	(11,526)	(11,526)	(145)	(11,671)
Exchange differences arising from translations of foreign operations	—	5	15	—	20	—	20
At 31 December 2020 and 1 January 2021	10	666	4,683	(59,616)	(54,257)	659	(53,598)
Loss for the year	—	—	—	(20,570)	(20,570)	44	(20,526)
Exchange differences arising from translations of foreign operations	—	50	(346)	—	(296)	—	(296)
At 31 December 2021 and 1 January 2022	10	716	4,337	(80,186)	(75,123)	703	(74,420)
Profit for the period	—	—	—	15,644	15,644	(21)	15,623
Transfer to statutory surplus reserve	—	2,002	—	(2,002)	—	—	—
Exchange differences arising from translations of foreign operations	—	(13)	(504)	—	(517)	—	(517)
At 30 September 2022	10	2,705	3,833	(66,544)	(59,996)	682	(59,314)
At 1 January 2021	10	666	4,683	(59,616)	(54,257)	659	(53,598)
Loss for the period	—	—	—	(15,827)	(15,827)	(90)	(15,917)
Exchange differences arising from translations of foreign operations	—	46	(129)	—	(83)	—	(83)
At 30 September 2021 (Unaudited)	10	712	4,554	(75,443)	(70,167)	569	(69,598)

COMBINED STATEMENTS OF CASH FLOWS

	Notes	Year ended 31 December			Nine months ended 30 September	
		2019	2020	2021	2021	2022
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Operating activities						
Profit/(loss) before tax		6,939	(16,456)	(27,851)	(21,463)	22,305
Adjustments for:						
Depreciation of owned property, plant and equipment	*10*	5,175	6,372	8,108	3,256	5,951
Depreciation of right-of-use assets	*10*	2,488	4,010	4,344	6,042	3,199
Finance costs	*9*	960	1,843	2,325	1,733	2,301
Interest income	*8*	(13)	(18)	(12)	(10)	(6)
Reversal of impairment losses allowance of trade receivables recognised	*10*	(43)	(16)	(106)	(434)	(262)
Operating cash flows before working capital changes		15,506	(4,265)	(13,192)	(10,876)	33,488
Changes in working capital:						
(Increase)/decrease in inventories		(14,531)	3,773	6,781	7,445	(414)
(Increase)/decrease in trade and other receivables		(31,157)	20,189	9,726	13,017	(76,765)
Increase/(decrease) in trade and other payables		29,173	(20,949)	(17,565)	(17,325)	41,049
Cash used in operations		(1,009)	(1,252)	(14,250)	(7,739)	(2,642)
Hong Kong Profits Tax (paid)/refund		(972)	175	195	—	—
Net cash used in operating activities		(1,981)	(1,077)	(14,055)	(7,739)	(2,642)
Investing activities						
Additions to property, plant and equipment		(4,052)	(4,917)	(1,420)	(1,276)	(4,438)
Interest received		13	18	12	10	6
Advances to non-controlling interests		(558)	(1,068)	(1,092)	(972)	(600)
Decrease/(increase) in amount due from related companies		1,495	(1,064)	3,089	(605)	(1,835)
Net cash (used in)/generated from investing activities		(3,102)	(7,031)	589	(2,843)	(6,867)

	Notes	Year ended 31 December 2019 HK$'000	2020 HK$'000	2021 HK$'000	Nine months ended 30 September 2021 HK$'000 (Unaudited)	2022 HK$'000
Financing activities						
Repayment of bank and other loans	31	(5,640)	(13,664)	(35,753)	(31,153)	(31,729)
Interest paid	31	(960)	(1,843)	(2,325)	(1,733)	(2,301)
New bank and other loans raised	31	13,809	35,214	35,462	35,008	44,805
(Repayment to)/advance from related companies	31	(2,447)	(3,927)	11,685	9,209	5,287
Repayment of lease liabilities	31	(2,287)	(3,841)	(4,293)	(3,164)	(3,384)
Net cash generated from financing activities		2,475	11,939	4,776	8,167	12,678
Net (decrease)/increase in cash and cash equivalents		(2,608)	3,831	(8,690)	(2,415)	3,169
Cash and cash equivalents at the beginning of the year/period		8,428	6,766	11,337	11,337	2,742
Effect of foreign exchange rate changes		946	740	95	43	(785)
Cash and cash equivalents at the end of the year/period						
Represented by cash and bank balances		6,766	11,337	2,742	8,965	5,126

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION OF THE TARGET COMPANY

1. GENERAL INFORMATION

The Target Company is a limited liability company established in Hong Kong on 2 August 2011. Its registered office is located at Unit 8–9, 13/F., Wah Wai Centre, 38–40 Au Pui Wan Street, Fotan, Shatin, N.T., Hong Kong.

The Target Company and its subsidiaries that are to remain as at the completion of proposed acquisition of the Target Company (hereafter collectively referred to the "**Target Group**") is primarily engaged in manufacturing and trading of watches and accessories of watches.

The Target Group comprises the Target Company and its subsidiaries listed in the table below, but excluding other subsidiaries (the "**Other Subsidiaries**") of the Target Company. Particulars of the subsidiaries of the Target Group included in the preparation of the Historical Financial Information are as follows:

Name	Place and date of incorporation establishment	Principal activities	Particular of issued/registered share capital	Percentage of equity attributable to the Target Company	
				Directly	Indirectly
Gold Choice Investment Limited ("**Gold Choice**") 高彩投資有限公司	Hong Kong 6 August 1997	Distribution of watches and timepieces	HK$100	60%	—
Dongguan Grand Chances Precision Hardware Products Co., Ltd.* ("**Dongguan Grand Chances**") 東莞冠熹精密五金製品有限公司	People's Republic of China (the "**PRC**") 12 August 2015	Manufacturing and trading of watches and parts of watch	RMB50,000,000	100%	—

* *For identification purposes only*

The directors consider its ultimate holding company being Fair Future Industrial Limited ("**Fair Future**"), a limited liability incorporated in Hong Kong.

2. BASIS OF PREPARATION AND PRESENTATION OF HISTORICAL FINANCIAL INFORMATION

(a) Basis of preparation and presentation

The business of the Target Group has formed a part of the larger group of the Target Company and its subsidiaries (the "**Overall Group**") during the Relevant Periods.

For the purpose of preparation of the Historical Financial Information of the Target Group, the financial position and the financial performance and cash flows of the Target Company, Gold Choice and Dongguan Grand Chances are combined and those of the Other Subsidiaries are excluded (i.e. a "carve-out" basis).

The directors of the Company is of the view that it is more appropriate to present the financial information of the Target Group during the Relevant Periods on a carve-out basis, rather than to present the financial information of the Overall Group on a consolidated basis, due to the following reasons:

- Fair Future is in the process of transferring the Other Subsidiaries to the new entity. The Target Group is clearly delineated from the Other Subsidiaries in terms of the nature of business and management.

- There are clearly identifiable assets, liabilities, revenue and expenditures of the Target Group and of the Other Subsidiaries.

- It is practicable to identify the historical financial information attributable to the Target Group's business given that the accounting books and records of the Target Group are maintained separately from the accounting books and records of the Other Subsidiaries.

No adjustments or allocations of expenses for adoption of a carve-out basis were made in the Historical Financial Information.

For the purpose of preparation of the Historical Financial Information of the Target Group, the financial information of the Target Group has been prepared and presented on a carve-out basis as if the Other Subsidiaries were excluded in preparing the financial information throughout the Relevant Periods.

Intra-group balances and transactions, and any unrealised profit or loss arising from intra-group transactions, are eliminated in preparing the Historical Financial Information of the Target Group.

(b) Statement of compliance

The Historical Financial Information has been prepared based on the significant accounting policies set out in Note 4 of the Historical Financial Information which conform with International Financial Reporting Standards ("**IFRSs**"), which collective term includes all applicable International Financial Reporting Standards ("**IFRS**"), International Accounting Standards ("**IAS**") and Interpretations, issued by the International Accounting Standards Board ("**IASB**"). The Historical Financial Information also complies with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosures required by the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited.

For the purpose of preparing the Historical Financial Information for the Relevant Period, the Target Group has consistently applied the accounting policies which conform with IFRSs that are effective for the accounting period beginning on 1 January 2022 throughout the Relevant Period. The revised and new accounting standards and interpretation issued but not yet effective for accounting periods beginning on 1 January 2022 are set out in Note 3 to the Historical Financial Information.

The Stub Period Comparative Financial Information has been prepared in accordance with the same basis of preparation and presentation adopted in respect of the Historical Financial Information.

The preparation of Historical Financial Information requires the use of significant accounting judgements and estimates. Although these judgements and estimates are based on the management's best knowledge, judgements and estimates of current events and actions, actual results maybe ultimately differ from those judgements and estimates. The areas involving a high degree of judgement or complexity, or areas whose assumptions and estimates are significant to the Historical Financial Information are set out in Note 5 to the Historical Financial Information.

(c) Basis of measurement

The Historical Financial Information have been prepared under the historical cost basis.

(d) Going concern basis

The Historical Financial Information of the Target Group have been prepared on a going concern basis, notwithstanding that the Target Group had net current liabilities of HK$96,936,000 and capital deficiency of HK$59,314,000 as at 30 September 2022. These conditions may cast significant doubt about the Target Group's ability to continue as a going concern.

In view of such circumstances, the Directors of the Company have prepared a cash flow forecast of the Target Group covering a period of twelve months from the end of the Relevant Periods (the "**Cash Flow Forecast**") with the following major plans and measures to improve its cash flow and financial position of the Target Group:

(i) The Target Group has obtained the undertakings in writing from both Fair Future and the Company to provide adequate continuing financial support to enable the Target Group to continue as going concern before the Completion and after the Completion, respectively;

(ii) The Target Group has obtained the undertakings in writing from all related companies (Note 26), a director (Note 26) and the lenders of other loans (Note 24) for not to demand repayment of loans and debts due to them within next twelve months from each reporting date and until such time when repayment will not affect the Target Group's ability to repay other creditors in the normal course of business for each reporting date, whichever is later; and

(iii) The Target Group has available unutilised bank facilities of HK$11,340,000 at the end of the Relevant Periods.

Based on the Cash Flow Forecast, the Directors of the Company are of the opinion that the Target Group would have sufficient financial resources for its operations and to meet its financial obligations as and when they fall due. Therefore, the Directors of the Company considered that it is appropriate to prepare the consolidated financial statements on a going concern basis.

(e) Functional and presentation currency

The Historical Financial Information is presented in Hong Kong Dollars ("**HK$**"), which is also the functional currency of the Target Company and all values are rounded to the nearest thousand ("**HK$'000**") unless otherwise stated.

3. NEW AND AMENDED IFRSS THAT HAVE BEEN ISSUED BUT ARE NOT YET EFFECTIVE

The following new or amended IFRSs, potentially relevant to the Historical Financial Information, has been issued, but are not yet effective and have not been early adopted by the Target Group during the Relevant Periods.

Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies[1]
Amendments to IAS 8	Definition of Accounting Estimates[1]
Amendments to IAS 12	Deferred Tax Related to Assets and Liabilities arising from a Single Transaction[1]
Amendments to IAS 1	Classification of Liabilities as Current on Non-current[2]
Amendments to IAS 1	Non-current Liabilities with Covenants[2]
Amendments to IFRS 16	Lease Liability in a Sale and Leaseback[2]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]

[1] Effective for annual periods beginning on or after 1 January 2023

[2] Effective for annual periods beginning on or after 1 January 2024

[3] Effective for annual periods beginning on or after a date to be determined

The Target Group is in the progress to making assessments of the potential impact of these new or amended IFRSs upon initial application.

4. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of the Historical Financial Information are set out below. These policies have been consistently applied to the Relevant Period presented, unless otherwise stated.

(a) Basis of combination

As explained note 2(a), the Historical Financial Information incorporates the financial statements of the Target Company and it subsidiaries, Gold Choice and Dongguan Grand Chances, which are controlled by the Target Company. Control is achieved when the Target 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 Target Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Combination of a subsidiary begins when the Target Company obtains control over the subsidiary and ceases when the Target Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year/ period are included in the combined statements of profit or loss from the date the Target Company gains control until the date when the Target Company ceases to control the subsidiary.

Non-controlling interests in a subsidiary are identified separately from the Target Company's equity therein. Those interests of non-controlling shareholder that are present ownership interests entitling their holders to a proportionate share of net assets upon liquidation may initially be measured at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Target Company and to the non-controlling interests. Total comprehensive income of the subsidiaries is attributed to the owners of the Target Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

(b) Investment in subsidiaries

Investments in subsidiaries are stated in the combined statements of financial position of the Target Group and the statement of financial position of the Target Company at cost less identified impairment loss, if any.

(c) Property, plant and equipment

Property, plant and equipment including buildings in the production or supply of goods, or for administrative purposes are stated in the combined statements of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of assets less their residual values over their estimated useful lives, using the straight-line method, at the following rates per annum:

Leasehold improvement	20%
Plant and machinery	10%
Furniture, fixture and equipment	20%–33.3%

The estimated useful lives, residual value 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.

(d) Lease (the Target Group as lessee)

All leases are required to be capitalised in the combined statements of financial position as right-of-use assets and lease liabilities, but accounting policy choices exist for an entity to choose not to capitalise (i) leases which are short-term leases and/or (ii) leases for which the underlying asset is of low-value. The Target Group has elected not to recognise right-of-use assets and lease liabilities for low-value assets and leases for which at the commencement date have a lease term of 12 months or less and do not contain purchase option. The lease payments associated with those leases have been expensed on straight-line basis over the lease term.

Right-of-use assets

The right-of-use assets should be recognised at cost and would comprise: (i) the amount of the initial measurement of the lease liability (see below for the accounting policy to account for lease liability); (ii) any lease payments made at or before the commencement date, less any lease incentives received; (iii) any initial direct costs incurred by the lessee and (iv) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. The Target Group measures the right-of-use assets applying a cost model. Under the cost model, the Target Group measures the right-to-use at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liability.

Lease liability

The lease liability is recognised at the present value of the lease payments that are not paid at the date of commencement of the lease. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Target Group uses the Lessees' incremental borrowing rate.

The following payments for the right-to-use the underlying asset during the lease term that are not paid at the commencement date of the lease are considered to be lease payments: (i) fixed payments less any lease incentives receivable; (ii) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at commencement date; (iii) amounts expected to be payable by the lessee under residual value guarantees; (iv) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option and (v) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Subsequent to the commencement date, the Target Group measures the lease liability by: (i) increasing the carrying amount to reflect interest on the lease liability; (ii) reducing the carrying amount to reflect the lease payments made; and iii) remeasuring the carrying amount to reflect any reassessment or lease modifications, or to reflect revised in-substance fixed lease payments.

When the Target Group revises its estimate of the term of any lease (because, for example, it re-assesses the probability of a lessee extension or termination option being exercised), it adjusts the carrying amount of the lease liability to reflect the payments to make over the revised term, which are discounted using a revised discount rate. The carrying value of lease liabilities is similarly revised when the variable element of future lease payments dependent on a rate or index is revised, except the discount rate remains unchanged. In both cases, an equivalent adjustment is made to the carrying value of the right-of-use asset, with the revised carrying amount being amortised over the remaining (revised) lease term. If the carrying amount of the right-of-use asset is adjusted to zero, any further reduction is recognised in profit or loss.

When the Target Group renegotiates the contractual terms of a lease with the lessor, if the renegotiation results in one or more additional assets being leased for an amount commensurate with the standalone price for the additional rights-of-use obtained, the modification is accounted for as a separate lease, in all other cases, where the renegotiated increases the scope of the lease (whether that is an extension to the lease term, or one or more additional assets being leased), the lease liability is remeasured using the discount rate applicable on the modification date, with the right-of-use assets being adjusted by the same amount.

(e) Impairment of non-financial assets

At the end of the reporting period, the Target Group reviews the carrying amounts of its tangible assets and investment in subsidiaries to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. When it is not possible to estimate the recoverable amount of an individual asset, the Target Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value-in-use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or 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. In allocating the impairment loss, the impairment loss is allocated to reduce the carrying amount of assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

(f) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost of inventories are determined on a first-in, first-out method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and cost necessary to make the sale.

(g) Financial Instruments

(i) Financial assets

The Target Group classifies its financial assets as measured at amortised cost only. Such classification of the Target Group's financial assets at initial recognition depends on the entity's business model for managing the financial assets and the contractual terms of cash flow.

At initial recognition, the Target Group measures its financial asset at fair value plus, in case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. A regular way purchase of sale is a purchase or sale of a financial asset under a contract whose terms require deliver of the asset within the time frame established generally by regulation or convention in the market place concerned.

Financial assets are not reclassified subsequent to their initial recognition, except if and in the period, the Target Group changes its business model for managing financial assets. A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as fair value through profit or loss:

— The financial asset is held within a business model whose objective is to hold financial assets to collect contractual cash flows; and

— The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The financial assets at amortised cost are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses, if any. Interest income, foreign exchange gains and losses and impairment losses are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss in which the period incurred.

(ii) Impairment loss on financial assets

The Target Group recognises loss allowances for expected credit losses ("**ECLs**") on trade receivables and financial assets measured at amortised cost. The ECLs are measured on either of the following bases: (1) 12 months ECLs: these are the ECLs that result from possible default events within the 12 months after the reporting date; and (2) lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument. The maximum period considered when estimating ECLs is the maximum contractual period over which the Target Group is exposed to credit risk.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the difference between all contractual cash flows that are due to the Target Group in accordance with the contract and all the cash flows that the Target Group expects to receive. The shortfall is then discounted at an approximation to the assets' original effective interest rate.

The Target Group has elected to measure loss allowances for trade receivables using IFRS 9 simplified approach and has calculated ECLs based on lifetime ECLs. The Target Group has established a provision matrix that is based on the Target Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For other debt financial assets, the ECLs are based on the 12-months ECLs. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Target Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information analysis, based on the Target Group's historical experience and informed credit assessment and including forward-looking information.

The Target Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due, unless the Target Group has reasonable and supportable information that demonstrates otherwise.

The Target Group considers a financial asset to be credit-impaired when: (1) the borrower is unlikely to pay its credit obligations to the Target Group in full, without recourse by the Target Group to actions such as realising security (if any is held); or (2) the financial asset is more than 90 days past due, unless the Target Group has reasonable and supportable information that a more lagging default criterion is more appropriate.

Interest income on credit-impaired financial assets is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset. For non credit-impaired financial assets, interest income is calculated based on the gross carrying amount.

(iii) Financial liabilities

The Target Group classifies its financial liabilities depending on the purpose for which the liabilities were incurred. Financial liabilities at fair value through profit or loss are initially measured at fair value and financial liabilities at amortised costs are initially measured at fair value, net of directly attributable costs incurred.

(iv) Financial liabilities at amortised cost

Financial liabilities at amortised cost including trade and other payables, bank and other loans, amounts due to related companies and amount due to a director.

Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

(v) Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

(vi) Equity instruments

Equity instruments issued by the Target Company are recorded at the proceeds received, net of direct issue costs.

(vii) Derecognition

The Target Group derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with IFRS 9.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

Where the Target Group issues its own equity instruments to a creditor to settle a financial liability in whole or in part as a result of renegotiating the terms of that liability, the equity instruments issued are the consideration paid and are recognised initially and measured at their fair value on the date the financial liability or part thereof is extinguished. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments are measured to reflect the fair value of the financial liability extinguished. The difference between the carrying amount of the financial liability or part thereof extinguished and the consideration paid is recognised in profit or loss for the year.

(viii) Write-off policy

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Target Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

(h) Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand, and short-term highly liquid investments with original maturities of three months or less that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in values.

(i) Provision and contingent liabilities

Provision are recognised when the Target Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future uncertain events not wholly within the control of the Target Group, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(j) Retirement benefit costs

Retirement benefits to employees are provided through defined contribution plans.

(k) Defined contribution plans

A defined contribution plan is a pension plan under which the Target Group pays fixed contribution to a separate entity. The Target Group has no legal or constructive obligations to pay further contributions after payment of the fixed contribution.

The contributions recognised in respect of defined contribution plans are expensed as they fall due. Liabilities and assets may be recognised if underpayment or prepayment has occurred and are included in current liabilities or current assets as they are normally of a short-term nature.

The Target Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "**MPF Scheme**") under the Mandatory Provident Fund Schemes Ordinance, for those employees in Hong Kong who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Target Group in an independently administered fund. The Target Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Target Group's subsidiaries which operate in the PRC are required to participate in a central pension scheme operated by the local municipal government (the "**Scheme**"). These subsidiaries are required to contribute certain percentage of its payroll costs to the central pension scheme. The Scheme is responsible for the entire pension obligations payable to the retired employees and the Target Group has no further obligations for the actual pension payments or other post-retirement benefits beyond the employer contributions. Contributions under the Scheme are charged to profit or loss as they become payable in accordance with the rules of the PRC.

(l) Short-term and other long-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 IFRS 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, annual leave and sick leave) after deducting any amount already paid.

Liabilities recognised in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Target Group in respect of services provided by employees up to the reporting date. Any changes in the liabilities' carrying amounts resulting from service cost, interest and remeasurement are recognised in profit or loss except to the extent that another IFRS requires or permits their inclusion in the cost of an asset.

(m) 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 each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms 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 are recognised in profit or loss in the period in which they arise.

For the purposes of presenting combined financial statements, the asset and liabilities of the Target Group's operations are translated into the presentation currency of the Target Group (that is, Hong Kong dollars) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve.

(n) 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.

(o) 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 tax' as reported in the combined statements of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Target Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of each reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the combined financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Target 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 Target Group expects, at the end of each reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax is 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.

(p) Revenue recognition

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Target Group expects to be entitled in exchange for those goods or services, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Depending on the terms of the contract and the laws that apply to the contract, control of the goods or service may be transferred over time or at a point in time. Control of the goods or service is transferred over time if the Target Group's performance:

- provides all of the benefits received and consumed simultaneously by the customer;
- creates or enhances an asset that the customer controls as the Target Group performs; or
- does not create an asset with an alternative use to the Target Group and the Target Group has an enforceable right to payment for performance completed to date.

If control of the goods or services transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the goods or service.

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amounts receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Target Group and the customer at contract inception.

A contract liability represents the Target Group's obligation to transfer goods or services to a customer for which the Target Group has received consideration (or an amount of consideration is due) from the customer.

The Target Group sells goods to customer. Revenue from sales of goods to customers is recognised when control of the products has been transferred, being when the products are delivered to the customers and there is no unfulfilled obligation that could affect the customer's acceptance of the products. It is the Target Group's policy to sell its products to the customers with a right to exchange faulty products to another product within reasonable period after delivery. These rights of return do not allow the returned goods to be refund in cash. No liability and right to the returned goods are recognised as insignificant amount of returns are expected based on accumulated experience.

(q) Government subsidy

Government subsidy is not recognised until there is reasonable assurance that the Target Group will comply with the conditions attaching to them and that the subsidy will be received.

(r) Related parties

(a) A person or a close member of that person's family is related to the Target Group if that person:

(i) has control or joint control over the Target Group;

(ii) has significant influence over the Target Group; or

(iii) is a member of key management personnel of the Target Group or the Target Company's parent.

(b) An entity is related to the Target Group if any of the following conditions apply:

(i) The entity and the Target Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of the employees of the Target Group or an entity related to the Target Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Target Group or to Target Company's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

(i) that person's children and spouse or domestic partner;

(ii) children of that person's spouse or domestic partner; and

(iii) dependents of that person or that person's spouse or domestic partner.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Target Group's accounting policies, which are described in note to the Historical Financial Information, 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 estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

(a) Estimated impairment of non-financial assets

The Target Group assesses whether there are any indicators of impairment for the non-financial assets at the end of each reporting period. An impairment exists when the carrying amount of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value-in-use. Management assessed that impairment indications existed during the years ended 31 December 2020 and 2021. Accordingly, management performed impairment testing for the non-current assets of the Target Group, which mainly comprised property, plant and equipment, by comparing their carrying amounts with their recoverable amounts following the accounting policy for impairment of non-financial assets (note 4(e)). The property, plant and equipment were tested for impairment at cash-generating unit ("CGU") level. The recoverable amount of the CGU which is composed of these assets is determined using value-in-use calculation. Based on the value-in-use calculations of the CGU, impairment provision is not required for the property, plant and equipment for the years ended 31 December 2020 and 2021.

The value-in-use calculation comprises cash flow projection based on a 5-year financial budget approved by the management. The cash flow projection incorporates a number of key estimates and assumptions about future events and therefore, are subject to uncertainty and might materially differ from the actual results. In making these key estimates and judgments, the directors take into consideration assumptions that are mainly based on market conditions existed at the end of the reporting period. These estimates are regularly compared to actual market data and actual transactions entered into by the Group. The value-in-use calculation also requires the management to exercise judgement to determine an appropriate discount rate for the cash flow projection. Future changes in the events and conditions underlying the estimates and judgement, including expected sale growth rate and change in discount rate, would affect the estimation of recoverable amount and may result in adjustment to the carrying amount.

Further details about the impairment assessment are set out in note 15.

(b) Estimated allowance of trade and other receivables

The Target Group estimates impairment losses of trade and other receivables are based on assumptions about risk of default and expected credit loss rate according to the significant accounting policies stated in Note 4(g)(ii) to the Historical Financial Information. The Target Group adopts judgement in making these assumption and selecting inputs for computing such impairment loss, broadly based on the available counterparties' historical default rates, existing market conditions including forward looking estimates at end of reporting period.

(c) Leases — estimating the incremental borrowing rate

The Target Group uses its incremental borrowing rate ("**IBR**") to measure lease liabilities. The IBR is the rate of interest that the Target Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Target Group 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. The Target Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates.

Judgement is required in determining the amount of the provision for taxation. The Group recognised income tax and other taxes based on management's best estimates according to their understanding of the tax rules. The final tax outcome could be different from the amounts that were initially recorded, and these differences will impact the tax expense in the period in which the tax calculations are finalised with the local tax authorities.

Deferred taxation relating to tax losses are recognised as management considers it is probable that future taxable profit will be available against which the tax losses can be utilised. Such assessment requires significant judgement by the management. Where the expectations are different from the original estimate, such differences will impact the recognition of deferred taxation in the period in which such estimate is changed. Details about the deferred tax assets recognised for unused tax losses are disclosed in note 19.

6. REVENUE AND SEGMENT INFORMATION

Revenue represents the amount received or receivable for the sales of watches cases, less returns and trade discounts, during the years/period. The revenue of the Target Group are recognised at point in time.

Information reported to the chief operating decision makers, being the executive directors of the Target Company, for resources allocation and performance assessment, is based on the Target Group's overall performance, which is considered as a single operating segment. Segment revenue, results, assets and liabilities are therefore the same as the respective amounts presented in the combined statements of profit or loss and other comprehensive income and the combined statements of financial position. Entity-wide disclosures of segment information are set out below.

Geographical information

The following table set out information about the geographical location of (i) the Target Group's revenue from external customers based on the location of customers, and (ii) the Target Group's non-current assets based on the location of the assets.

	Revenue from external customers				
	Year ended 31 December			Nine months ended 30 September	
	2019	2020	2021	2021	2022
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
The PRC	88,231	86,765	45,396	34,694	151,217
Hong Kong	45,250	11,652	10,250	8,026	2,890
	133,481	98,417	55,646	42,720	154,107

	Non-current assets (excluding deferred tax assets and financial instruments)			
	As at 31 December			As at 30 September
	2019	2020	2021	2022
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
The PRC	43,977	46,920	36,984	28,763

Information about major customers

	Year ended 31 December			Nine months ended 30 September	
	2019	2020	2021	2021	2022
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Customer A	37,638	29,152	9,854	9,832	N/A[1]
Customer B	17,346	24,798	8,806	7,370	N/A[1]
Customer C	N/A[1]	18,386	N/A[1]	4,968	N/A[1]
Customer D	N/A[1]	N/A[1]	5,908	N/A[1]	N/A[1]
Customer E	N/A[1]	N/A[1]	N/A[1]	N/A[1]	144,532

1 The corresponding revenue did not contribute over 10% of the Target Group's total revenue in the respective year/period.

7. OTHER GAINS AND LOSSES, NET

	Year ended 31 December			Nine months ended 30 September	
	2019	2020	2021	2021	2022
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Exchange (loss)/gain, net	(655)	2,989	1,546	253	6,163

8. OTHER INCOME

	Year ended 31 December			Nine months ended 30 September	
	2019	2020	2021	2021	2022
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Bank interest income	13	18	12	10	6
Government subsidies	—	22	12	—	132
Income from sale of steel slag	929	38	61	54	1,102
	942	78	85	64	1,240

For the years ended 31 December 2020 and 2021 and the nine months ended 30 September 2022, the government subsidies represent a one-off subsidies from the PRC government relating to labour training.

9. FINANCE COSTS

	Year ended 31 December			Nine months ended 30 September	
	2019	2020	2021	2021	2022
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Interest charged on:					
Bank and other loans	833	1,355	1,957	1,445	1,939
Lease liabilities	127	376	359	285	150
Amounts due to related parties	—	112	9	3	212
	960	1,843	2,325	1,733	2,301

10. PROFIT/(LOSS) BEFORE TAX

	Year ended 31 December			Nine months ended 30 September	
	2019	**2020**	**2021**	**2021**	**2022**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Profit/(loss) before tax has been arrived at after charging/(crediting):					
Auditors' remuneration	199	189	283	226	226
Cost of inventories recognised as expenses	105,023	94,237	58,630	44,728	112,694
Depreciation of owned property, plant and equipment	5,175	6,372	8,108	3,256	5,951
Depreciation of right-of-use assets	2,488	4,010	4,344	6,042	3,199
Reversal of impairment losses of trade receivables recognised	(43)	(16)	(106)	(434)	(262)
Staff costs (including directors' emoluments):					
— Salaries and other benefits	29,178	26,653	20,127	13,120	31,058
— Retirement benefits scheme contributions	2,411	639	2,240	1,708	1,798
Total staff costs	31,589	27,292	22,367	14,828	32,856

11. INCOME TAX EXPENSE/(CREDIT)

	Year ended 31 December			Nine months ended 30 September	
	2019	2020	2021	2021	2022
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(unaudited)	
Current tax:					
Hong Kong Profits Tax	120	—	—	—	—
Under/(over)-provision in respect of prior years	6	(36)	—	—	—
	126	(36)	—	—	—
Deferred tax charge/(credit) ***(note 19)***	1,682	(4,749)	(7,325)	(5,546)	6,682
Income tax expense/(credit) for the year/period	1,808	(4,785)	(7,325)	(5,546)	6,682

Hong Kong Profits Tax is calculated at 16.5% on the estimated assessable profit for the years ended 31 December 2019, 2020 and 2021 and nine months ended 30 September 2021 and 2022. The provision for Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits for the year ended 31 December 2019. No provision for Hong Kong profits tax has been made for the years ended 31 December 2020 and 2021 and nine months ended 30 September 2021 and 2022 as the Target Group has no assessable profits arising in Hong Kong.

Under the laws of the PRC on Enterprise Income Tax (the "**EIT Law**") and Implementation Regulation of EIT Law, the tax rate of the PRC subsidiary is 25% for the years ended 31 December 2019, 2020 and 2021 and nine months ended 30 September 2021 and 2022. No provision for Enterprise Income Tax has been made for the years ended 31 December 2020 and 2021 and nine months ended 30 September 2021 as the Target Group has no assessable profits arising in the PRC. No provision for Enterprise Income Tax has been made for the year ended 31 December 2019 and nine months ended 30 September 2022 as there are available tax losses to set off the assessable profits arising in the PRC.

The income tax expense/(credit) for the year/period can be reconciled to the profit/(loss) before tax per the combined statements of profit or loss and other comprehensive income as follows:

	Year ended 31 December			Nine months ended 30 September	
	2019	2020	2021	2021	2022
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Profit/(loss) before tax	6,939	(16,456)	(27,851)	(21,463)	22,305
Tax at the rates applicable to tax jurisdictions concerned	1,717	(4,330)	(7,086)	(5,427)	5,953
Tax effect of income not taxable for tax purposes	—	(507)	(255)	(168)	—
Tax effect of expenses not deductible for tax purposes	14	—	16	12	729
Tax effect of tax losses not recognised	71	88	—	37	—
Under/(over)-provision in respect of prior years	6	(36)	—	—	—
Income tax expense/(credit) for the year/period	1,808	(4,785)	(7,325)	(5,546)	6,682

12. DIRECTORS' EMOLUMENTS

a. Directors

The remuneration of directors of the Target Company for the years ended 31 December 2019, 2020 and 2021 and nine months ended 30 September 2021 and 2022 are set out below:

	Fees *HK$'000*	Salaries and other benefits *HK$'000*	Retirement benefits scheme contributions *HK$'000*	Total emoluments *HK$'000*
For the year ended 31 December 2019	—	—	—	—
For the year ended 31 December 2020	—	—	—	—
For the year ended 31 December 2021	—	—	—	—
For the nine months ended 30 September 2021 (unaudited)	—	—	—	—
For the nine months ended 30 September 2022	—	—	—	—

b. Directors' retirement benefits

No retirement benefits were paid to or receivable by any directors in respect of their other services in connection with the management of the affairs of the Target Company for the years ended 31 December 2019, 2020 and 2021 and the nine months ended 30 September 2021 and 2022.

c. Directors' termination benefits

No payment was made to directors as compensation for the early termination of the appointment during the years ended 31 December 2019, 2020 and 2021 and the nine months ended 30 September 2021 and 2022.

d. Consideration provided to third parties for making available directors' services

No payment was made to third parties for making available directors' services during the years ended 31 December 2019, 2020 and 2021 and the nine months ended 30 September 2021 and 2022.

e. Information about loans, quasi-loans and other dealings in favour of directors, controlled body corporates by and connected entities with such directors

There are no loans, quasi-loans and other dealings in favour of directors, controlled body corporates by and connected entities with such directors during the years ended 31 December 2019, 2020 and 2021 and the nine months ended 30 September 2021 and 2022.

f. Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Target Company's business to which the Target Company was a party and in which a director of the Target Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the years ended 31 December 2019, 2020 and 2021 and the nine months ended 30 September 2021 and 2022.

13. DIVIDEND

No dividend has been paid or declared by the Target Group for the years ended 31 December 2019, 2020, 2021 and the nine months ended 30 September 2021 and 2022.

14. EARNINGS/(LOSS) PER SHARE

Earnings/(loss) per share information is not presented as its inclusion for the purpose of this report is not considered meaningful.

15. PROPERTY, PLANT AND EQUIPMENT

	Properties lease for own use *HK$'000*	Leasehold improvement *HK$'000*	Plant and machinery *HK$'000*	Furniture, fixtures and equipment *HK$'000*	Total *HK$'000*
COST					
At 1 January 2019	3,114	3,936	42,420	2,483	51,953
Additions	6,386	422	2,643	987	10,438
Exchange realignment	(171)	(87)	(907)	(67)	(1,232)
At 31 December 2019 and 1 January 2020	9,329	4,271	44,156	3,403	61,159
Additions	6,888	2,556	1,471	890	11,805
Exchange realignment	1,042	442	3,086	283	4,853
At 31 December 2020 and 1 January 2021	17,259	7,269	48,713	4,576	77,817
Additions	—	123	1,063	234	1,420
Exchange realignment	475	202	1,359	130	2,166
At 31 December 2021 and 1 January 2022	17,734	7,594	51,135	4,940	81,403
Additions	—	161	3,656	621	4,438
Exchange realignment	(1,843)	(800)	(5,573)	(556)	(8,772)
At 30 September 2022	15,891	6,955	49,218	5,005	77,069
ACCUMULATED DEPRECIATION					
At 1 January 2019	—	1,188	9,052	1,090	11,330
Provided for the year	2,488	696	3,889	590	7,663
Exchange realignment	(42)	(36)	(250)	(31)	(359)
At 31 December 2019 and 1 January 2020	2,446	1,848	12,691	1,649	18,634
Provided for the year	4,010	1,425	4,247	700	10,382
Exchange realignment	404	210	1,114	153	1,881
At 31 December 2020 and 1 January 2021	6,860	3,483	18,052	2,502	30,897
Provided for the year	4,344	1,778	5,299	1,031	12,452
Exchange realignment	266	127	591	86	1,070
At 31 December 2021 and 1 January 2022	11,470	5,388	23,942	3,619	44,419
Provided for the period	3,199	1,436	3,963	552	9,150
Exchange realignment	(1,419)	(662)	(2,769)	(413)	(5,263)
At 30 September 2022	13,250	6,162	25,136	3,758	48,306
NET BOOK VALUE					
At 31 December 2019	6,883	2,423	31,465	1,754	42,525
At 31 December 2020	10,399	3,786	30,661	2,074	46,920
At 31 December 2021	6,264	2,206	27,193	1,321	36,984
At 30 September 2022	2,641	793	24,082	1,247	28,763

The net book value of the Target Group's right-of-use assets included in property, plant and equipment as at 31 December 2019, 2020 and 2021 and 30 September 2022 represented the properties leased for own use and carried at depreciated cost.

For the years ended 31 December 2019, 2020 and 2021 and nine months ended 30 September 2021 and 2022, the Target Group leases two lands for its operations. Lease contracts are entered into for fixed term of 5 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Target Group applies the definition of a contract and determines the period for which the contract is enforceable.

The Directors are required to perform impairment review if a potential impairment is indicated. Property, plant and equipment with net carrying amount of HK$46,920,000 and HK$36,984,000 as at 31 December 2020 and 2021 are attributable to the cash generating unit of the Target Group as a whole ("**GV CGU**"). The recoverable amount of property, plant and equipment is determined based on value-in-use calculations. The calculations use cash flow projections based on financial budgets approved by the management of the Group covering a five-year period, followed by an extrapolation of expected cash flow at zero growth rate which do not exceed the long-term growth rate for the business in which the GV CGU operates and a discount rate of 19.06% per annum as at 31 December 2020 and 16.04% per annum as at ended 31 December 2021. The discount rate used is pre-tax and reflect specific risks related to the GV CGU. The Group's key assumptions for the value-in-use calculations are the budgeted revenue and operating expenses which are determined based on recent performance of the respective years of the GV CGU. Management also believes that any reasonably possible change in the key assumptions on which the CGU's recoverable amount is based would not cause GV CGU's carrying amount to exceed its recoverable amount.

Based on the result of the assessment as at 31 December 2020 and 2021, the recoverable amount of GV CGU is higher than the carrying amount of property, plant and equipment. No impairment loss would be recognised for the years ended 31 December 2020 and 2021.

16. INVESTMENTS IN SUBSIDIARIES

	As at 31 December			As at 30 September
	2019	2020	2021	2022
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Target Group				
Investment in subsidiaries				
Unlisted shares at cost *(note a)*	4,674	4,674	4,674	4,674
Impairment provision	(4,674)	(4,674)	(4,674)	(4,674)
	—	—	—	—

	As at 31 December			As at 30 September
	2019	2020	2021	2022
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Target Company				
Investment in subsidiaries				
Unlisted shares at cost *(note b)*	52,174	52,174	62,174	62,174
Impairment provision	(4,674)	(4,995)	(24,145)	(24,145)
	47,500	47,179	38,029	38,029

The Target Company had direct and indirect equity interests in the following principal subsidiaries during the Relevant Periods:

Name of subsidiaries	Place and date of incorporation establishment	Particular of issued/registered capital	Percentage of equity attributable to the Target Group and Other Subsidiaries (*Note d*)		Principal activities
			Direct	Indirect	
			%	%	
Gold Choice	Hong Kong 6 August 1997	HK$100	60	—	Distribution of stainless steel alloy watches and timepieces
Dongguan Grand Chances	PRC 12 August 2015	RMB50,000,000 (*Note c*)	100	—	Manufacturing and trading of stainless steel alloy watches and parts of stainless steel alloy and smart watch
Grand Chances (Shenzhen) Investment and Development Co., Ltd*. ("**Grand Chances**") 冠城金熹投資發展(深圳)有限公司	PRC 7 November 2012	RMB13,800,000	100	—	Investment holding in the PRC
Qinzhou Jintai Watch Shell Factory* ("**Qinzhou Jintai**") 欽州金泰錶殼廠廣西錶殼廠	PRC 6 September 2012	RMB1,000,000	—	100	Manufacturing of copper watches cases
Shenzhen Grand Chances Watch Industry Co. Ltd.* ("**Shenzhen Grand Chances**") 深圳市冠城金熹表業有限公司	PRC 19 December 2012	RMB10,500,000	—	100	Manufacturing and trading of copper watches cases and provision of testing and inspection service

* *For identification purposes only*

Notes:

a. The amount represented investment in Other Subsidiaries including Qinzhou Jintai, Shenzhen Grand Chances and Grand Chances as at 31 December 2019, 2020 and 2021 and 30 September 2022. The management of the Target Company had performed impairment test in previous year. Since the carrying amount of the investment in the separate financial statement exceeds its recoverable amount, the investment cost is fully impaired. Based on the result of the assessment as at 31 December 2019, 2020 and 2021, no reversal of impairment loss would be recognised.

b. The amount represented investment in subsidiaries including Gold Choice, Dongguan Grand Chances, Qinzhou Jintai, Shenzhen Grand Chances and Grand Chances as at 31 December 2019, 2020 and 2021 and 30 September 2022. The management of the Target Company has performed impairment test annually. As at 31 December 2020 and 2021, the carrying amount of the investment in the separate financial statements exceeds its recoverable amount. Based on the result of the assessment, the management has further provided the impairment of HK$321,000 and HK$19,150,000 for the years ended 31 December 2020 and 2021, respectively.

c. On 24 May 2021, the register capital of Dongguan Grand Chances was increased by RMB10,000,000 from RMB40,000,000 to RMB50,000,000. At 31 December 2021 and 30 September 2022, the paid-up-capital was RMB48,248,050 and the registered share capital was RMB50,000,000.

d. There was no change in the equity interests attributable to the Target Group during the Relevant Periods.

17. INVENTORIES

	As at 31 December			As at 30 September
	2019	2020	2021	2022
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Raw materials	6,738	3,997	3,291	2,867
Work-in-progress	15,196	15,614	10,072	9,492
Finished goods	274	101	—	—
	22,208	19,712	13,363	12,359

18. TRADE, PREPAYMENT AND OTHER RECEIVABLES

	As at 31 December			As at 30 September
	2019	2020	2021	2022
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Non-current:				
Rental deposits	688	770	791	706
Prepayment for purchase of property, plant and equipment	1,452	—	—	—
	2,140	770	791	706
Current:				
Trade receivables, gross	45,057	29,212	20,300	86,943
Less: impairment loss allowance	(1,954)	(1,992)	(1,888)	(1,567)
Trade receivables, net	43,103	27,220	18,412	85,376
Other receivables	2,812	1,880	1,148	4,012
Prepayments	41	—	533	188
	2,853	1,880	1,681	4,200
Total current trade and other receivables	45,956	29,100	20,093	89,576
Total trade and other receivables	48,096	29,870	20,884	90,282

The Target Group allows a credit period ranging from 30 to 120 days to its trade customers. The following is an ageing analysis of trade receivables (net of impairment loss allowance) presented based on the invoice dates, at the end of each reporting period:

	As at 31 December			As at 30 September
	2019	**2020**	**2021**	**2022**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
0–90 days	42,415	26,199	18,330	85,205
91–180 days	669	1,021	82	171
181–270 days	19	—	—	—
	43,103	27,220	18,412	85,376

Movement in the impairment loss allowance for trade receivables

	Year ended 31 December			Nine months ended 30 September
	2019	**2020**	**2021**	**2022**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Balance at beginning of the year/ period	2,006	1,954	1,992	1,888
Reversal of impairment losses allowance recognised	(43)	(16)	(106)	(262)
Exchange realignment	(9)	54	2	(59)
Balance at the end of the year/period	1,954	1,992	1,888	1,567

The Target Group does not hold any collateral over these balances.

19. DEFERRED TAX ASSETS

The following are the major deferred tax assets recognised by the Target Group and movements thereon during the years ended 31 December 2019, 2020 and 2021 and nine months ended 30 September 2022.

	Unutilised tax losses *HK$'000*
At 1 January 2019	4,864
Charged to profit or loss *(note 11)*	(1,682)
Exchange realignment	(70)
At 31 December 2019 and 1 January 2020	3,112
Credited to profit or loss *(note 11)*	4,749
Exchange realignment	493
At 31 December 2020 and 1 January 2021	8,354
Credited to profit or loss *(note 11)*	7,325
Exchange realignment	347
At 31 December 2021 and 1 January 2022	16,026
Charged to profit or loss *(note 11)*	(6,682)
Exchange realignment	(1,191)
At 30 September 2022	8,153

As at 31 December 2019, the Target Group estimated no unused tax losses arising in Hong Kong. As at 31 December 2020 and 2021, and nine months ended 30 September 2022, the Target Group estimated unused tax losses arising in Hong Kong of HK$225,000, HK$472,000 and HK$493,000, respectively, which are subject to the agreement of Inland Revenue Department, that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these estimated unused tax losses as these were incurred by the companies that have been loss-making for some time.

Deferred tax assets are recognised for unused tax losses arising in the PRC which are available for offsetting against future taxable profits of the Target Group, the tax losses will expire at various dates for a maximum period of five years.

20. AMOUNTS DUE FROM RELATED COMPANIES AND NON-CONTROLLING INTERESTS

As at the end of each reporting period, the amounts due from related companies were unsecured, interest free and repayable on demand.

Name of related companies	Relationship	As at 31 December 2019	2020	2021	As at 30 September 2022
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Grand Chances	Other Subsidiaries*	7,230	7,721	7,934	7,152
Qinzhou Jintai	Other Subsidiaries*	3,246	3,466	—	3,211
Shenzhen Grand Chances	Other Subsidiaries*	5,410	5,777	5,936	5,352
Bestimever Limited	Fellow subsidiary	19	5	10	—
		15,905	16,969	13,880	15,715

* The entity is one of the Other Subsidiaries which are excluded from the preparation of the Historical Financial Information.

	Year ended 31 December 2019	2020	2021	Nine months ended 30 September 2022
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Maximum outstanding balances during the year/period				
Grand Chances	7,230	7,721	7,934	7,934
Qinzhou Jintai	3,246	3,466	3,466	3,211
Shenzhen Grand Chances	5,410	5,777	5,936	5,936
Bestimever Limited	19	19	10	10

As at the end of each reporting period, the amounts due from non-controlling interests were unsecured, interest free and repayable on demand.

	As at 31 December			As at 30 September
	2019	**2020**	**2021**	**2022**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Amounts due from non-controlling interests				
Cho Young Tai	558	1,626	2,718	3,318

	Year ended 31 December			Nine months ended 30 September
	2019	**2020**	**2021**	**2022**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Maximum outstanding balances during the year/period				
Cho Young Tai	558	1,626	2,718	3,318

21. CASH AND BANK BALANCES

The Target Group's bank balances that are denominated in RMB are set out below:

	As at 31 December			As at 30 September
	2019	**2020**	**2021**	**2022**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Denominated in RMB	5,253	10,046	666	3,385

The RMB is not freely convertible into other currencies. Under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Target Group is permitted to exchange RMB into foreign currencies through the banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates.

22. TRADE AND OTHER PAYABLES

	As at 31 December			As at 30 September
	2019	2020	2021	2022
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade payables	47,923	29,147	11,142	46,884
Other payables	460	620	1,166	212
Accruals	6,066	6,178	6,774	8,166
	54,449	35,945	19,082	55,262

The Target Group was granted by its suppliers of credit periods ranging from 30 to 90 days. An ageing analysis of trade payables of the Target Group, based on invoice date, is as follows:

	As at 31 December			As at 30 September
	2019	2020	2021	2022
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
1–30 days	11,327	3,860	4,080	12,827
31–60 days	11,509	5,711	2,544	14,812
61–90 days	11,041	7,720	2,152	9,742
Over 90 days	14,046	11,856	2,366	9,503
	47,923	29,147	11,142	46,884

23. RETIREMENT BENEFIT SCHEME

Hong Kong

Defined contribution scheme

The Target Group operates a Mandatory Provident Fund Scheme (the "**MPF Scheme**") for all qualifying employees in Hong Kong under the rules and regulations of the Mandatory Provident Fund Authority. The assets of the MPF Scheme are held separately from those of the Target Group, in funds under the control of trustees. Contributions are made based on a percentage of the participating employees' relevant income from the Target Group and are charged to profit or loss as they become payable in accordance with the rules of the MPF Scheme.

The Target Group participates in defined contribution schemes which are registered under the Mandatory Provident Fund Scheme ("**MPF Scheme**") established under the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong) ("**MPFSO**") for the benefits of its employees in Hong Kong. The assets of the schemes are held, separately from those of the Target Group, in funds under the control of independent trustees. In accordance with the statutory limits prescribed by the MPFSO, for each employee under the MPF Scheme, the Target Group contributes 5% for the years ended 31 December 2019, 2020 and 2021 and the nine months ended 30 September 2021 and 2022 of the relevant income to the MPF Scheme, subject to a cap of monthly contribution at HK$1,500 per employee for the years ended 31 December 2019, 2020 and 2021 and the nine months ended 30 September 2021 and 2022, which contribution is matched by the employee. Contributions to the MPF Scheme for the Target Group's employees are fully and immediately vested in the employees once the contributions are made.

There were no contributions forfeited by the Target Group on behalf of its employees who leave the MPF Scheme (as the case may be) for the years ended 31 December 2019, 2020 and 2021 and the nine months ended 30 September 2021 and 2022.

The PRC

Defined contribution scheme

According to the relevant laws and regulation in the PRC, the PRC subsidiary is required to contribute a certain percentage of the salaries of its employees to the state-managed retirement benefit scheme. The only obligations of the Target Group with respect to the retirement benefit scheme is to make the required contributions under the scheme.

Pursuant to the relevant laws and regulations in the PRC, the Target Group has joined defined contribution retirement schemes for the employees in the PRC arranged by local government labour and security authorities ("**PRC Retirement Schemes**"). The Target Group makes contributions to the PRC Retirement Schemes at the applicable rates based on the amounts stipulated by the local government authorities. Upon retirement, the local government labour and security authorities are responsible for the payment of the retirement benefits to the retired employees.

There were no contributions forfeited by the Target Group on behalf of its employees who leave the PRC Retirement Schemes (as the case may be) for the years ended 31 December 2019, 2020 and 2021 and the nine months ended 30 September 2021 and 2022.

24. BANK AND OTHER LOANS

		As at 31 December			As at 30 September
		2019	2020	2021	2022
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Bank loans — secured and guaranteed	*a*	7,304	25,862	23,189	20,216
Import trade loans — secured	*a*	6,360	9,891	8,540	6,822
Other loans — unsecured	*b*	—	1,667	6,424	19,298
		13,664	37,420	38,153	46,336

The analysis of the carrying amount of the bank and other loans are as follows:

	As at 31 December			As at 30 September
	2019	2020	2021	2022
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
The borrowing repayable based on scheduled repayment date set out in the loan agreements, are as follows:				
Within one year	13,664	37,420	38,153	46,336

Notes:

a. As at 31 December 2019, 2020 and 2021 and 30 September 2022, the effective interest rates of the Target Group's secured bank loans and import trade loans were ranging 4.79%–5.39% per annum, 4.79%–5.39% per annum, 4.79% per annum and 4.5%–4.99% per annum, respectively.

   During the Relevant Periods, all the bank loans and the import trade loan were secured by Fair Future and Procon Precision Manufacturing (Shenzhen) Limited, who are the ultimate holding company and a fellow subsidiary of the Target Group and standby letter of credit provided by the other bank.

b. As at 31 December 2020 and 2021, and 30 September 2022, the effective interest rates of the Target Group's unsecured loans were 4.80%, 4.80%, and ranging 4.79%–6.00% per annum, respectively.

   Included in other loans, amounts of HK$11,513,000 are due from related companies of the Target Group as at 30 September 2022. The Target Group is an associate of a member of a group of which the lenders of other loans are member.

   Included in other loans, amounts of HK$1,667,000, HK$6,624,000 and HK$6,140,000 are due from a fellow subsidiary of the Target Group as at 31 December 2020 and 2021 and 30 September 2022.

c. The Target Group has available unutilised bank facilities of HK$25,366,000, HK$5,929,000, HK$11,099,000 and HK$11,340,000 as at 31 December 2019, 2020 and 2021 and 30 September 2022.

25. LEASE LIABILITIES

The amount included in the combined statements of financial position in respect of the carrying amounts of lease liabilities and the movement during the Relevant Periods is as follows:

	Land and buildings leased for own use
	HK$'000
As at 1 January 2019	3,114
Additions	6,386
Interest expense	127
Lease payments	(2,414)
Exchange realignment	(132)
As at 31 December 2019 and 1 January 2020	7,081
Additions	6,888
Interest expense	376
Lease payments	(4,217)
Exchange realignment	661
As at 31 December 2020 and 1 January 2021	10,789
Interest expense	359
Lease payments	(4,652)
Exchange realignment	221
As at 31 December 2021 and 1 January 2022	6,717
Interest expense	150
Lease payments	(3,534)
Exchange realignment	(458)
As at 30 September 2022	2,875

Future lease payments are due as follows:

	As at 31 December			As at 30 September
	2019	2020	2021	2022
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Future lease payments due				
— Within one year	2,771	4,606	4,885	2,917
— In the second to fifth years, inclusive	4,771	6,735	2,035	—
Less: future interest expenses	(461)	(552)	(203)	(42)
Present value of lease liabilities	7,081	10,789	6,717	2,875

The present value of future lease payments are analysed as:

	As at 31 December			As at 30 September
	2019	2020	2021	2022
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Current liabilities	2,545	4,252	4,702	2,875
Non-current liabilities	4,536	6,537	2,015	—
	7,081	10,789	6,717	2,875

	As at 31 December			As at 30 September
	2019	2020	2021	2022
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Short-term leases expenses	2,771	4,606	4,885	2,917

26. AMOUNTS DUE TO RELATED COMPANIES AND A DIRECTOR

As at 31 December 2019, 2020 and 2021, and 30 September 2022, the amounts due to related companies of amount of HK$3,346,000, HK$1,191,000, HK$4,601,000 and HK$2,851,000 were unsecured, interest bearing at range from 0% to 4.79%, 0% to 4.79%, 0% to 4.79% and 0% to 4.79% per annum and repayable on demand.

					As at 30
		As at 31 December			September
Name of related companies	**Relationship**	**2019**	**2020**	**2021**	**2022**
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Shenzhen Grand Chances	Other Subsidiaries *(note b)*	3,856	1,602	1,424	2,685
Qinzhou Jintai	Other Subsidiaries *(note b)*	226	—	109	938
Fair Future	Ultimate holding company	68,076	68,705	81,430	80,371
寶科精密製品(深圳)有限公司	Fellow subsidiary	—	16	1	1
Bestimever Limited	Fellow subsidiary	104	109	106	168
豪度表業(深圳)有限公司	Fellow subsidiary	—	—	—	399
Sure Best Management limited	Related company *(note a)*	18,315	18,315	18,315	18,315
		90,577	88,747	101,385	102,877

Notes:

(a) Fair Future, ultimate holding company of the Target Group is an associate of Sure Best Management Limited.

(b) The entity is one of the Other Subsidiaries which are excluded from the preparation of the Historical Financial Information.

As at the end of each reporting period, the amount due to a director was unsecured, interest-free and repayable on demand.

				As at 30
	As at 31 December			September
	2019	**2020**	**2021**	**2022**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Amount due to a director				
Chan Heung Wai, Debby	15,680	15,680	15,680	15,680

27. SHARE CAPITAL

The Target Company was incorporated in Hong Kong with issued and fully paid share capital of HK$10,000.

For the purpose of this report, the share capital of the Target Group as at 31 December 2019, 2020 and 2021 and 30 September 2021 and 2022 represented the share capital of the Target Company at the end of each reporting period.

	Number of ordinary shares	Share capital
	'000	*HK$'000*
Target Group and Target Company		
Issued and fully paid:		
Balance at 1 January 2019, 31 December 2019, 1 January 2020 and 31 December 2020, 1 January 2021 and 31 December 2021, 1 January 2022 and 30 September 2022	10	10

28. RESERVES

The Target Group

The amounts of the Target Group's reserves and the movements therein for the Relevant Period are presented in the combined statements of changes in equity on page II-8 of this circular.

(a) Statutory surplus reserve

In accordance with the articles of association of the subsidiary established in the PRC, the subsidiary is required to transfer 10% of the profit after taxation to the statutory reserve until the reserve reaches 50% of the registered capital. Transfer to this reserve shall be made before distributing dividends to equity holders. The statutory reserve can be used to make up for previous years' losses, expand the existing operations or convert into additional capital of the subsidiary.

(b) Translation reserve

The amount represents gains/losses arising on retranslating the net assets of foreign operations into presentation currency of the Target Group.

(c) Accumulated losses

Cumulative net gains and losses recognised in profit or loss.

29. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	As at 31 December			As at 30 September
	2019	**2020**	**2021**	**2022**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Financial assets at amortised cost				
— Bank balances and cash	6,766	11,337	2,742	5,126
— Trade receivables	43,103	27,220	18,412	85,376
— Other receivables and deposits	3,500	2,650	1,939	4,718
— Amounts due from related companies	15,905	16,969	13,880	15,715
— Amounts due from non-controlling interests	558	1,626	2,718	3,318
	69,832	59,802	39,691	114,253
Financial liabilities at amortised cost				
— Trade and other payables	48,383	29,767	12,308	47,096
— Bank and other loans	13,664	37,420	38,153	46,336
— Lease liabilities	7,081	10,789	6,717	2,875
— Amounts due to related companies	90,577	88,747	101,385	102,877
— Amount due to a director	15,680	15,680	15,680	15,680
	175,385	182,403	174,243	214,864

(b) Financial risk management objectives and policies

The Target Group's major financial instruments include trade and other receivables, bank balances and cash, trade and other payables, bank and other loans, amounts due to/ from related companies, non-controlling interests and a director. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (foreign currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(i) Foreign currency risk

The Target Group undertakes certain transactions denominated in foreign currencies, which expose the Target Group to foreign currency risk. The Target Group currently does not have a foreign currency hedging policy, but the management will consider hedging significant foreign currency exposure as necessary. The Target Group manages the foreign currency risk by closely monitoring the movement of the foreign currency exchange rates.

The Target Group does not have significant financial assets or financial assets and financial liabilities denominated in foreign currencies other than the functional currencies of the respective group companies.

(ii) Interest rate risk

The Target Group's exposure to fair value interest rate risk in relation to fixed-rate other loan and amounts due to related companies and a director for the year ended 31 December 2019, 2020 and 2021 and nine month ended 30 September 2022 (see notes 24 and 26 for details).

The Target Group's also exposure to the risk of changes in market interest rates relates primarily to the Target Group's interest-bearing bank loans with floating interest rates (see note 24).

As at 31 December 2019, 2020 and 2021, and 30 September 2022, the Target Group's interest-bearing bank loans bear variable interest rates ranging 4.79%–5.39% per annum, 4.79%–5.39% per annum, 4.79% per annum and 4.50%–4.99% per annum, respectively.

If interest rate had been 100 basis points higher/lower and all other variables were held constant, the Target Group's post-tax profit for the year ended 31 December 2019 and the nine months ended 30 September 2022 would be decreased/ increased by approximately HK$114,000 and HK$387,000.

If the interest rate had been 100 basis points higher/lower and all other variables were held constant, the Target Group's post-tax loss for the years ended 31 December 2020 and 2021 would be increased/decreased by approximately HK$312,000 and HK$319,000.

Credit risk

The Target Group's maximum exposure to credit risk which will cause a financial loss to the Target Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the combined statements of financial position.

The Target Group's credit risk is primarily attributable to its trade and other receivables, amounts due form related companies and amounts due from non-controlling interests, cash and bank balances.

Management has a credit policy in place and exposure to credit risk are monitored on an ongoing basis.

For the trade receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customers as well as pertaining to the economic environment in which the customers operate. Ongoing credit evaluation is performed on the financial condition of trade customers. Trade receivables are due within 30–120 days end of month. Normally, the Target Group does not obtain collateral from customers.

The Target Group measures loss allowances for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Target Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Target Group's different customer bases.

Expected loss rates are based on actual loss experience over the past 3 years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Target Group's view of economic conditions over the expected-lives of the receivables.

In deterring expected credit loss, management considers available reasonable and supportive forward looking information. Especially the following indicators are incorporated:

- external credit rating (as far as available)
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the counterparty's ability to meet its obligations
- actual or expected significant changes in the operating results of the counterparty
- significant expected changes in the performance and behaviour of the counterparty, including changes in the payment status of counterparties in the Target Group and changes in the operating results of the counterparty

A default on a financial asset is when the counterparty fails to make contractual payments when they fall due.

Financial assets are written off when there is no reasonable expectation of recovery.

The loss allowance as at the end of each reporting period was determined for trade receivables as follows:

As at 31 December 2019

	Expected credit loss rate — weighted average	**Gross carrying amount**	**Loss allowance**	**Net amount**
	(%)	*HK$'000*	*HK$'000*	*HK$'000*
Not yet past due	0	27,418	—	27,418
Overdue within 90 days	0.1	14,514	15	14,499
Overdue 91 to 180 days	0.37	269	1	268
Overdue 181 to 270 days	1.2	327	4	323
Overdue over 271 days	52.30–100	2,529	1,934	595
		45,057	1,954	43,103

As at 31 December 2020

	Expected credit loss rate — weighted average (%)	Gross carrying amount HK$'000	Loss allowance HK$'000	Net amount HK$'000
Not yet past due	0	15,893	—	15,893
Overdue within 90 days	0.1	10,326	10	10,316
Overdue 91 to 180 days	0.12	833	1	832
Overdue 181 to 270 days	0	1	—	1
Overdue over 271 days	54.67–100	2,159	1,981	178
		29,212	1,992	27,220

As at 31 December 2021

	Expected credit loss rate — weighted average (%)	Gross carrying amount HK$'000	Loss allowance HK$'000	Net amount HK$'000
Not yet past due	0	14,778	—	14,778
Overdue within 90 days	0.11	3,558	4	3,554
Overdue 91 to 180 days	0	12	—	12
Overdue 181 to 270 days	0	—	—	—
Overdue over 271 days	66.71–100	1,952	1,884	68
		20,300	1,888	18,412

As at 30 September 2022

	Expected credit loss rate — weighted average (%)	Gross carrying amount HK$'000	Loss allowance HK$'000	Net amount HK$'000
Not yet past due	0	56,248	—	56,248
Overdue within 90 days	0.1	29,042	29	29,013
Overdue 91 to 180 days	0	17	—	17
Overdue 181 to 270 days	2	100	2	98
Overdue over 271 days	100	1,536	1,536	—
		86,943	1,567	85,376

For other receivables, impairment loss is recognised based on 12-month ECL since the Target Group assesses whether there has not been a significant increase in credit risk since initial recognition. In determining the ECLs, the directors of the Company have taken into account the historical default experience, the financial position of the counterparties, as well as the future prospects of the industries in which the issuers operate and considering various external sources of actual and forecast economic information, as appropriate, in estimating the probability of default of each of these financial assets occurring within their respective loss assessment time horizon, as well as the loss given default.

For amount due from related parties and amount due from director that do not have significant increase in credit risk since initial recognition and risk of default is insignificant, has not been the ECLs for these financial assets were based on 12-months ECL. The Target Group takes into account the historical credit loss experience, adjusted for forwarding- looking factors and the economic environment, as appropriate, and concludes that ECLs are insignificant.

The credit risk on cash and bank balances is limited because the majority of the counterparties are banks with good reputation. No impairment had been provided under 12-month expected credit loss assessment.

Liquidity risk

The management of the Target Group has built an appropriate liquidity risk management framework for the management of the Target Group's short, medium and long-term funding and liquidity management requirements. The management manages liquidity risk by closely monitoring the Target Group's cash flow position.

The following table details the Target Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Target Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate at the end of the reporting period.

Specifically, bank loans with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity analysis for other non-derivative financial liabilities is prepared based on the scheduled repayment dates.

	Weighted average effective interest rate	Repayable on demand or less than 1 year	1 year to 2 years	2 years to 5 years	Total undiscounted cash flows	Carrying amount
	%	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 31 December 2019						
Trade and other payables		54,449	—	—	54,449	54,449
Bank and other loans	5.31	15,525	—	—	15,525	13,664
Lease liabilities	4.00	2,771	1,893	2,878	7,542	7,081
Amount due to a director		15,680	—	—	15,680	15,680
Amounts due to related companies	4.79	90,577	—	—	90,577	90,577
		179,002	1,893	2,878	183,773	181,451

	Weighted average effective interest rate	Repayable on demand or less than 1 year	1 year to 2 years	2 years to 5 years	Total undiscounted cash flows	Carrying amount
	%	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 31 December 2020						
Trade and other payables		35,945	—	—	35,945	35,945
Bank and other loans	4.79	38,381	—	—	38,381	37,420
Lease liabilities	4.00	4,606	4,754	1,981	11,341	10,789
Amount due to a director		15,680	—	—	15,680	15,680
Amounts due to related companies	4.79	88,804	—	—	88,804	88,747
		183,416	4,754	1,981	190,151	188,581

	Weighted average effective interest rate	Repayable on demand or less than 1 year	1 year to 2 years	2 years to 5 years	Total undiscounted cash flows	Carrying amount
	%	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 31 December 2021						
Trade and other payables		19,082	—	—	19,082	19,082
Bank and other loans	4.79	39,140	—	—	39,140	38,153
Lease liabilities	4.00	4,885	2,035	—	6,920	6,717
Amount due to a director		15,680	—	—	15,680	15,680
Amounts due to related companies	4.79	101,605	—	—	101,605	101,385
		180,392	2,035	—	182,427	181,017

	Weighted average effective interest rate	Repayable on demand or less than 1 year	1 year to 2 years	2 years to 5 years	Total undiscounted cash flows	Carrying amount
	%	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 30 September 2022						
Trade and other payables		55,262	—	—	55,262	55,262
Bank and other loans	4.85	46,894	—	—	46,894	46,336
Lease liabilities	4.00	2,917	—	—	2,917	2,875
Amount due to a director		15,680	—	—	15,680	15,680
Amounts due to related companies	4.63	103,005	—	—	103,005	102,877
		223,758	—	—	223,758	223,030

The below table summarises the maturity analysis of bank loans with a repayment on demand clause based on agreed scheduled repayments set out in the loan agreements. The amounts included interest payments computed using contractual rates. As a result, these amounts were greater than the amount disclosed in the "Within one year and on demand" time band in the maturity analysis above.

The maturity analysis of bank loans is shown as below:

	Within 1 year	**Total contractual undiscounted cash flows**	**Carrying amount**
	HK$'000	*HK$'000*	*HK$'000*
As at 31 December 2019	15,525	15,525	13,664
As at 31 December 2020	36,634	36,634	35,753
As at 31 December 2021	32,408	32,408	31,729
As at 30 September 2022	27,202	27,202	27,038

30. RELATED PARTY TRANSACTIONS

In addition to those disclosed elsewhere in the combined financial statements, the following transactions were carried out by the Target Group with related parties during the years/period.

	Nature of transaction	Relationship	Year ended 31 December 2019 HK$'000	Year ended 31 December 2020 HK$'000	Year ended 31 December 2021 HK$'000	Nine months ended 30 September 2021 HK$'000 (Unaudited)	Nine months ended 30 September 2022 HK$'000
Shenzhen Grand Chances	Sales of goods	Other subsidiary	502	70	158	157	16
	Subcontract charge		41	79	—	—	—
	Interest charges		—	113	3	3	152
寶科精密製品(深圳)有限公司	Purchase on behalf	Fellow subsidiary	61	355	115	96	1,114
	Purchase of fixed asset		255	—	—	—	—
Bestimever Ltd	Purchase of goods	Fellow subsidiary	381	41	167	112	55
	Sales of goods		316	115	206	126	43
Qinzhou Jintai	Purchase of goods	Other subsidiary	836	36	—	—	—
欽州金泰精密五金製品有限公司	Interest charges	Fellow subsidiary	—	—	5	—	60
Fair Future Industrial Limited	Sales of goods	Ultimate holding company	25,709	2,359	5,259	4,131	1,065
	Purchase of goods		—	356	131	110	357
豪度表業(深圳)有限公司	Interest charges	Fellow subsidiary	—	50	187	111	233
Shenzhen Permanence Commerce Co., Limited	Interest charges	Related company *(Note)*	—	—	—	—	204

Note: The Target Group is an associate of a member of a group of which the lenders of other loans are member.

31. NOTE TO THE COMBINED STATEMENTS OF CASH FLOWS

Reconciliation of liabilities arising from financing activities

	Lease liabilities *HK$'000*	Bank and other loans *HK$'000*	Amounts due to related companies *HK$'000*
At 1 January 2019	3,114	5,640	93,093
Cash flows:			
— Repayment	—	(5,640)	(2,447)
— Advances/drawdown	—	13,809	—
— Interest paid	(127)	(833)	—
— Lease payments	(2,287)	—	—
Non-cash movements:			
— Interest expenses	127	833	—
— Increase in lease liabilities from entering into new leases during the year, net	6,386	—	—
— Exchange realignment	(132)	(145)	(69)
At 31 December 2019 and 1 January 2020	7,081	13,664	90,577
Cash flows:			
— Repayment	—	(13,664)	(3,927)
— Advances/drawdown	—	35,214	—
— Interest paid	(376)	(1,355)	(112)
— Lease payments	(3,841)	—	—
Non-cash movements:			
— Interest expenses	376	1,355	112
— Increase in lease liabilities from entering into new leases during the year, net	6,888	—	—
— Exchange realignment	661	2,206	2,097
At 31 December 2020	10,789	37,420	88,747

	Lease liabilities	Bank and other loans	Amounts due to related companies
	HK$'000	*HK$'000*	*HK$'000*
At 1 January 2021	10,789	37,420	88,747
Cash flows:			
— Repayment	—	(35,753)	—
— Advances/drawdown	—	35,462	11,685
— Interest paid	(359)	(1,957)	(9)
— Lease payments	(4,293)	—	—
Non-cash movements:			
— Interest expenses	359	1,957	9
— Exchange realignment	221	1,024	953
At 31 December 2021 and 1 January 2022	6,717	38,153	101,385
Cash flows:			
— Repayment	—	(31,729)	—
— Advances/drawdown	—	44,805	5,287
— Interest paid	(150)	(1,939)	(212)
— Lease payments	(3,384)	—	—
Non-cash movements:			
— Interest expenses	150	1,939	212
— Exchange realignment	(458)	(4,893)	(3,795)
At 30 September 2022	2,875	46,336	102,877
At 1 January 2021	10,789	37,420	88,747
Cash flows:			
— Repayment	—	(31,153)	—
— Advances/drawdown	—	35,008	9,209
— Interest paid	(285)	(1,445)	(3)
— Lease payments	(3,164)	—	—
Non-cash movements:			
— Interest expenses	285	1,445	3
— Exchange realignment	108	395	332
At 30 September 2021	7,733	41,670	98,288

32. SUBSEQUENT EVENT

On 6 December 2022, the Target Company has completed the acquisition of 40% equity interests in Gold Choice from Gold Choice's non-controlling interests at a consideration of HK$720,000. Upon completion of the acquisition, Gold Choice became a wholly owned subsidiary of the Target Company.

The information set out in this Appendix does not form part of the Accountants' Reports on the Target Group, as set out in "Appendix II Accountants' Reports on the Target Group", and is included herein for information only.

A. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

In connection with the Proposed Acquisition by Swissmount Holdings Limited, a directly wholly owned subsidiary of the Company, the unaudited pro forma financial information of the Enlarged Group has been prepared by the Directors in accordance with paragraph 4.29 of the Listing Rules and with reference to Accounting Guideline 7 Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars ("**AG 7**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") to illustrate the effect of the Proposed Acquisition on the Group's financial position as at 30 June 2022 as if the Proposed Acquisition had taken place at 30 June 2022.

The unaudited pro forma consolidated statement of assets and liabilities as at 30 June 2022 and related notes (hereinafter collectively referred to as the "**Unaudited Pro Forma Financial Information**") of the Enlarged Group are prepared based on (i) the unaudited condensed consolidated statement of financial position of the Group as at 30 June 2022 as extracted from the published interim report of the Company for the six months ended 30 June 2022; and (ii) the audited combined statements of financial position of the Target Group as at 30 September 2022 as extracted from the Accountants' report audited by BDO Limited, Certified Public Accountants as set out in Appendix II to this Circular.

The Unaudited Pro Forma Financial Information of the Enlarged Group is prepared based on the aforesaid historical data after giving effect to the pro forma adjustments described in the accompanying notes. Narrative description of the pro forma adjustments of the Proposed Acquisition that are (i) directly attributable to the Proposed Acquisition; and (ii) factually supportable, is summarised in the accompanying notes.

The Unaudited Pro Forma Financial Information of the Enlarged Group has been prepared by the Directors based on certain assumptions, estimates and uncertainties for illustrative purposes only and because of its hypothetical nature, the Unaudited Pro Forma Financial Information of the Enlarged Group may not purport to predict what the financial position of the Enlarged Group would have been if the Proposed Acquisition had been completed on 30 June 2022 or on any future dates.

The Unaudited Pro forma Financial Information of the Enlarged Group should be read in conjunction with the financial information of the Group as set out in Appendix I to this Circular and the historical financial information of the Target Group as set out in Appendix II to this Circular and other financial information included elsewhere in this Circular.

Unaudited Pro Forma Consolidated Statement of Assets and Liabilities of the Enlarged Group as at 30 June 2022

		Pro forma adjustments			
	Unaudited consolidated statement of assets and liabilities of the Group as at 30 June 2022	**Audited combined statements of assets and liabilities of the Target Group as at 30 September 2022**	**Business combination**	**Recognition of transaction costs**	**Unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group as at 30 June 2022**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Note 1)	*(Note 2)*	*(Note 4)*	*(Note 6)*	
Non-current assets					
Property, plant and equipment	33,856	28,763			62,619
Rental deposits	881	706			1,587
Intangible assets	—	—	69,239		69,239
Goodwill	—	—	118,316		118,316
Deferred tax assets	—	8,153			8,153
	34,737	37,622			259,914
Current assets					
Inventories	357,638	12,359	1,722		371,719
Trade and other receivables	53,173	89,576			142,749
Amounts due from related companies	—	15,715			15,715
Amounts due from non-controlling interests	—	3,318			3,318
Cash and bank balances	9,101	5,126			14,227
	419,912	126,094			547,728

	Unaudited consolidated statement of assets and liabilities of the Group as at 30 June 2022	Audited combined statements of assets and liabilities of the Target Group as at 30 September 2022	Pro forma adjustments		Unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group as at 30 June 2022
			Business combination	Recognition of transaction costs	
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Note 1)	*(Note 2)*	*(Note 4)*	*(Note 6)*	
Current liabilities					
Trade and other payables	42,806	55,262	720	1,516	100,304
Tax payable	1,416	—			1,416
Lease liabilities	5,399	2,875			8,274
Amount due to a related party	234	—			234
Amounts due to related companies	—	102,877	(16,270)		86,607
Amounts due to fellow subsidiaries	247,071	—			247,071
Amounts due to directors	17,264	15,680			32,944
Bank borrowings	14,028	46,336			60,364
	328,218	223,030			537,214
Net current assets/(liabilities)	91,694	(96,936)			10,514
Total assets less current liabilities	126,431	(59,314)			270,428
Non-current liabilities					
Lease liabilities	5,731	—			5,731
Bank borrowings	3,081	—			3,081
Deferred tax liabilities	13,974	—	17,740		31,714
Contingent consideration payable	—	—	95,722		95,722
Pension obligation	676	—			676
	23,462	—			136,924
Net assets/(liabilities)	102,969	(59,314)			133,504

Notes to the Unaudited Pro Forma Financial Information of the Enlarged Group

1. The amounts are extracted from the unaudited condensed consolidated statement of financial position of the Group as at 30 June 2022 as set out in the published interim report of the Company for the six months ended 30 June 2022.

2. The amounts are extracted from the audited combined statements of financial position of the Target Group as at 30 September 2022 as set out in Appendix II in this Circular.

3. Pursuant to the Agreement, the Consideration for the Proposed Acquisition shall be HK$140,000,000, which shall be settled as to HK$100,000,000 by way of issuing 38,461,538 Consideration Shares and HK$40,000,000 by cash in different timeslots. The number of Consideration Shares and the amount of Cash Consideration for the settlement shall be subject to the adjustment pursuant to the Profit Guarantee. The Consideration shall be settled in three instalments. Details of the adjustment and payment terms are set out in pages 6 to 37 of the section headed "Letter from the Board" contained in this Circular.

   The first instalment of 12,820,512 Consideration Shares shall be issued to the Vendor (i) on 3 January 2023 (on condition that the Completion take place on 30 December 2022); or within 10 business days after the Completion (if the Completion Date is not 30 December 2022).

   The first instalment of Cash Consideration of HK$13,333,333.3 shall be paid to the Vendor (i) on 1 April 2024 if the Annual Financial Statements of the Target Group for the year ended 31 December 2023 has been issued on or before 31 March 2024 or (ii) within 30 business days after the issuance of Annual Financial Statements of the Target Group for the year ended 31 December 2023 if the Annual Financial Statements for the year ended 31 December 2023 is issued after 31 March 2024.

   The second instalment of 12,820,513 Consideration Shares shall be issued to the Vendor (i) on 1 April 2025 if the Annual Financial Statements of the Target Group for the year ended 31 December 2024 has been issued on or before 31 March 2025 or (ii) within 30 business days after the issuance of Annual Financial Statements of the Target Group for the year ended 31 December 2024 if the Annual Financial Statements for the year ended 31 December 2024 is issued after 31 March 2025.

   Payment for the second instalment of Cash Consideration of HK$13,333,333.3 is subject to the net profit after tax for the six months ending 30 June 2024 attained by the Target Group (2024 H1 Profit):

   (i) If the 2024 H1 Profit is not less than HK$14,000,000, an amount up to HK$13,333,333.3 shall be paid to the Vendor on 1 September 2024.

   (ii) If the 2024 H1 Profit is HK$12,000,000 or more but less than HK$14,000,000, an amount of HK$12,000,000.00 shall be paid to the Vendor on 1 September 2024. If the 2024 H1 Profit is HK$10,000,000 or more but less than HK$12,000,000, an amount of HK$10,000,000.00 shall be paid to the Vendor on 1 September 2024. The respective shortfall between HK$13,333,333.3 of the second instalment Cash Consideration and the amount of cash paid under the aforesaid scenarios shall be paid to the Vendor (i) on 1 April 2025 if the Annual Financial Statements of the Target Group for the year ended 31 December 2024 has been issued on or before 31 March 2025; or (ii) within 30 business days after the issuance of the Annual Financial Statements of the Target Group for the year ended 31 December 2024 if the Annual Financial Statements for the year ended 31 December 2024 is issued after 31 March 2025.

   (iii) If the 2024 H1 Profit is less than HK$10,000,000, an amount up to HK$13,333,333.3 shall be paid to the Vendor (i) on 1 April 2025 if the Annual Financial Statements of the Target Group for the year ended 31 December 2024 has been issued on or before 31 March 2025; or (ii) within 30 business days after the issuance of the Annual Financial Statements of the Target Group for the year ended 31 December 2024 if the Annual Financial Statements for the year ended 31 December 2024 is issued after 31 March 2025.

The third instalment of 12,820,513 Consideration Shares of shall be issued to the Vendor and the third instalment Cash Consideration of HK$13,333,333.4 shall be paid to the Vendor (i) on 1 April 2026 if the Annual Financial Statements of the Target Group for the year ended 31 December 2025 has been issued on or before 31 March 2026 or (ii) within 30 business days after the issuance of Annual Financial Statements of the Target Group for the year ended 31 December 2025 if the Annual Financial Statements for the year ended 31 December 2025 is issued after 31 March 2026.

The Vendor guarantees to the Company that the net profit after tax of the Target Group for each of financial years ending 31 December 2023, 31 December 2024 and 31 December 2025 shall not be less than HK$30,000,000 (the "**Profit Target**"). If there is any shortfall of the Profit Target in any such year, an amount equal to 1.5 times the amount by which the actual net profit after tax is less than the Profit Target ("**the Profit Compensation**") shall be payable by the vendor to the Company.

The Consideration shall be reduced by the amount of the Profit Compensation firstly by the reduction of the outstanding Consideration Shares for the instalment and then the balance of the Profit Compensation shall be reduced by the outstanding Cash Consideration for the instalment. If the unpaid instalment is not sufficient to set off the Profit Compensation, the difference between the Profit Compensation and the unpaid instalment shall be paid in cash by the Vendor to the Company within 30 business days after the issuance of the Annual Financial Statements of the Target Group for the respective financial year.

The first instalment of Consideration Shares will be issued within 10 business days after the Completion the latest. The remaining instalments of the Consideration are subject to the adjustment of Profit Compensation and are recognised as contingent consideration payable. The fair value of the first instalment Consideration Shares is determined at the closing price of the Completion Date. For the purpose of this unaudited Pro Forma Financial Information, the fair value is determined based on the Company's closing share price on 30 June 2022. The fair value of contingent consideration payable is determined by the directors of the Company, and by reference to a valuation report issued by Asset Appraisal Limited ("**Asset Appraisal**"), an independent qualified valuer, as if the Proposed Acquisition was completed on the 30 June 2022. The fair value of contingent consideration payable is determined based on (i) the assumption that the Profit Guarantee shall be achieved; (ii) the discount rate of 13.77% applied in the portion of Cash Consideration; and (iii) historical volatility applied in the portion of Consideration Shares.

The discount rate is based on the weighted average cost of capital (WACC) of the Target Group as determined by Asset Appraisal based on the following parameters:

Debt-to-Equity Ratio	:	57.5% (being 36.5% debt and 64.5% equity) with reference to the capital structure of the comparable companies as disclosed in Appendix V of this Circular
Cost of Debt	:	7.63% (based on the historical finance costs of the Target Group)
Cost of Equity	:	18.39% (developed using the Capital Asset Pricing Model with risk free rate of 2.816%, market risk premium of 13.584%, re-leverage beta of 0.7042 and company specific risk premium of 6%)

The total consideration is determined as follows:

	HK$'000
Issuance of first instalment Consideration Shares at the Completion	32,051
Fair value of contingent consideration payable	95,722
	127,773

4. Upon completion of the Proposed Acquisition, the Group will possess the power to direct the relevant activities over the Target Group, and the Target Group will be accounted for as wholly-owned subsidiaries of the Group. The identifiable assets and liabilities of the Target Group will be accounted

for in the consolidated financial statements of the Enlarged Group at their fair value under acquisition method of accounting, in accordance with International Financial Reporting Standard 3 (Revised) "Business Combinations" ("**IFRS 3**").

For the purpose of the Unaudited Pro Forma Financial Information, the allocation of the purchase consideration is determined based on the estimates of the fair values of the identifiable assets and liabilities of the Target Group made the by the directors of the Company, and by reference to a valuation report issued by Asset Appraisal, as if the Acquisition was completed on the 30 June 2022.

The following tables summarises the consideration, the net assets acquired and goodwill recognised as if the Acquisition had taken place at 30 June 2022:

	HK$'000
Total consideration *(note 3)*	127,773
Net liabilities of the Target Group as at 30 September 2022 *(note (i))*	(59,314)
Fair value adjustment of inventories through the Proposed Acquisition as at 30 June 2022 *(note (ii))*	1,722
Fair value of intangible assets identified through the Proposed Acquisition as at 30 June 2022 *(note (iii))*	69,239
Deferred tax liabilities arising from the pro forma fair value adjustments *(note (iv))*	(17,740)
Related party balances set off with the consideration of the transfer of Other Subsidiaries *(note 5)*	16,270
Payable for the acquisition of non-controlling interests of Gold Choice Investments Limited *(note 5)*	(720)
Net identifiable assets acquired and the liabilities assumed of the Target Group as at 30 June 2022	9,457
Goodwill arising from the Proposed Acquisition	118,316

(i) The net liabilities of the Target Group as at 30 September 2022 has been extracted from the Accountants' Report of the Target Group as set out in Appendix II to this Circular.

(ii) The fair value of the inventories of the Target Group as at 30 June 2022 are determined based on the valuation carried out by Asset Appraisal. Pursuant to the valuations performed by Asset Appraisal, the fair value of the inventories of the Target Group as at 30 June 2022 is approximately HK$14,081,000 which is determined by the estimated selling price less direct costs of disposal. Accordingly, the unaudited pro forma adjustment of HK$1,722,000 has been made to adjust the inventories of the Target Group to their fair value as of 30 June 2022.

(iii) Pursuant to the valuations performed by Asset Appraisal, the fair value of the intangible assets of the Target Group as at 30 June 2022, which mainly comprised of technical knowhow and customer relationship, is approximately HK$69,239,000. Accordingly, the unaudited pro forma adjustment of HK$69,239,000 has been made to adjust the intangible assets of the Target Group to their fair value as of 30 June 2022.

The fair values of technical knowhow and customer relationship, with respective amounts of approximately HK$59,646,000 and HK$9,593,000, have been arrived at based on relief-from-royal method and multi-period excess earnings method respectively. These methods are commonly adopted valuation methods in assessing these types of intangible assets. The key assumptions used in the valuation are as follows:

	Technical Knowhow	**Customer Relationship**
Useful Life	10 years[(a)]	3 years[(b)]
Royal Rate	5%[(c)]	N/A
Discount Rate	14.56%[(d)]	14.56%[(d)]

(a) Useful life of 10 years for technical knowhow is based on the design patent term in China (i.e. 10 years to 15 years).

(b) Useful life of 3 years for customer relationship is based on analysis of historical attrition rate of the Target Group's customer base.

(c) Royal Rate of 5% is based on the research on royalty rate applicable to manufacturing equipment and tools as carried out by RoyaltySource and CompuStat Research.

(d) The discount rate is based on the weighted average cost of capital (WACC) of the Target Group as determined by Asset Appraisal based on the following parameters:

Debt-to-Equity Ratio	:	37.05% (being 27% debt and 73% equity) with reference to the capital structure of the comparable companies as disclosed in Appendix V of this Circular
Cost of Debt	:	7.63% (based on the historical finance costs of the Target Group)
Cost of Equity	:	16.46% (developed using the Capital Asset Pricing Model with risk free rate of 2.75%, market risk premium of 11.379%, re-leverage beta of 0.6763, company specific risk premium of 6% and intangible asset premium of 1%)

(iv) Deferred tax liabilities relating to the unaudited pro forma fair value adjustments of notes (ii) and (iii) of approximately HK$17,740,000 is calculated at the applicable tax rate in the respective jurisdictions.

Since the fair values and the carrying amounts of the identifiable net assets and liabilities of Target Group as at the Completion date may be different from their respective values used in the preparation of the Unaudited Pro Forma Financial Information, the actual amounts of the assets, liabilities and goodwill to be recorded in the consolidated financial statements of the Enlarged Group upon Completion may be different from the estimated amounts shown in this appendix.

5. Pursuant to the Agreement, conditions precedent includes that all subsidiaries in the Target Group should be remained as wholly-owned subsidiaries of the Target Company and the equity interests of the subsidiaries that are not in the Target Group should be transferred to the Vendor. In December 2022, the acquisition of 40% equity interest of Gold Choice Investments Limited has been completed by the Target Company with the consideration of HK$720,000 and the Target Company has transferred all equity interests of Other Subsidiaries to the Vendor at HK$16,270,000 (i.e. equivalent to RMB13,890,000), in which the consideration is settled through the current account with the Vendor. This adjustment represents the effect of the completion of group reorganisation at the completion date of Proposed Acquisition.

6. This represents the recognition of acquisition-related costs, including legal and professional fees and transaction costs of approximately HK$1,516,000 to be incurred by the Company for the Proposed Acquisition. The amount is subject to change upon the actual completion of the Proposed Acquisition.

7. No adjustments have been made to the Unaudited Pro Forma Financial Information to reflect any trading results or other transactions of the Group or the Target Group entered into subsequent to 30 June 2022 for the preparation of the unaudited pro forma consolidated statement of financial position of the Enlarged Group as at 30 June 2022.

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 BDO Limited, 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 circular.

BDO

Tel : +852 2218 8288
Fax: +852 2815 2239
www.bdo.com.hk

25th Floor Wing On Centre
111 Connaught Road Central
Hong Kong

電話：+852 2218 8288
傳真：+852 2815 2239
www.bdo.com.hk

香港干諾道中111號
永安中心25樓

TO THE DIRECTORS OF ERNEST BOREL HOLDINGS LIMITED

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Ernest Borel Holdings Limited (the "**Company**") and its subsidiaries (the "**Group**") and Gold Vantage Industrial Limited (the "**Target Company**") and its subsidiaries that are to remain as at the completion of the proposed acquisition of the Target Company (hereinafter collectively referred to as the "**Target Group**") (collectively the "**Enlarged 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 consolidated statement of assets and liabilities as at 30 June 2022 and related notes (the "**Unaudited Pro Form Financial Information**") as set out on pages III-1 to III-7 of the Company's circular dated 13 March 2023 (the "**Circular**"). The applicable criteria on the basis of which the Directors have compiled the unaudited pro forma financial information are described on pages III-1 to III-7 of the Circular.

The Unaudited Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the proposed acquisition of the entire issued share capital of Gold Vantage Industrial Limited (the "**Proposed Acquisition**") on the Group's financial position as at 30 June 2022 as if the Proposed Acquisition had taken place at 30 June 2022. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's unaudited condensed consolidated interim financial information for the six months ended 30 June 2022, on which no audit or review report 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 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and with reference to Accounting Guideline 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 Management (HKSQM) 1, Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements, which requires the firm to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the 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 its 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 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the 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 entity 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 Proposed Acquisition at 30 June 2022 for the Enlarged Group's financial position would have been as presented.

A reasonable assurance engagement to report on whether the Unaudited Pro Forma Financial Information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors in the compilation of the Unaudited Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgement, having regard to the reporting accountants' understanding of the nature of the company, 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 by the Directors 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 4.29(1) of the Listing Rules.

Yours faithfully,

BDO Limited
Certified Public Accountants
Hong Kong, 13 March 2023

Set out below is the management discussion and analysis of the performance of the Target Group for each of the year ended 31 December 2019, 2020 and 2021 and the nine months ended 30 September 2022.

FINANCIAL AND BUSINESS OVERVIEW

The Target Company is a company incorporated in Hong Kong with limited liability and is wholly-owned by the Vendor as at the Latest Practicable Date. The Target Company is principally engaged in investment holding. The HK Subsidiary is principally engaged in distribution of watches and timepieces. The PRC Subsidiary is principally engaged in design, development and manufacturing of stainless-steel alloy watches cases, smart watch cases and smart phone components on ODM or OEM basis.

Revenue

The Target Group recorded revenue of approximately HK$133.5 million, HK$98.4 million and HK$55.6 million and HK$154.1 million, respectively, for each of the financial years ended 31 December 2019, 2020 and 2021 and the nine months ended 30 September 2022. The Target Group's revenue in the said periods was mainly generated from sale of watches cases.

The Target Group's revenue decreased by approximately HK$35.1 million or 26.3% from approximately HK$133.5 million for the year ended 31 December 2019 to approximately HK$98.4 million for the year ended 31 December 2020. The decrease in revenue was mainly attributable to the unexpected COVID-19 outbreak in early 2020 which had caused an almost complete lockdown around the globe, abrupt pauses in economic activities and thus resulted in a significant drop in the Target Group's revenue.

The Target Group's revenue decreased by approximately HK$42.8 million or 43.5% from approximately HK$98.4 million for the year ended 31 December 2020 to approximately HK$55.6 million for the year ended 31 December 2021. The decrease in revenue was mainly attributable to the depressed market sentiment caused by the global outbreak of the COVID-19 pandemic and initial investment in research and development at the early stage of the technology development.

The Target Group's revenue increased by approximately HK$111.4 million or 260.9% from approximately HK$42.7 million for the nine months ended 30 September 2021 to approximately HK$154.1 million for the nine months ended 30 September 2022. The increase in revenue was mainly attributable to the increase in new sale orders received from its major customer.

Profit/(loss) after taxation

The Target Group recorded profit after taxation of approximately HK$5.1 million, loss after taxation of approximately HK$11.7 million, loss after taxation of approximately HK$20.5 million for the three financial years ended 31 December 2019, 2020 and 2021, respectively and profit after taxation of approximately HK$15.6 million for the nine months ended 30 September 2022.

The decrease by approximately HK$16.8 million from profit after taxation of approximately HK$5.1 million for the year ended 31 December 2019 to loss after taxation of approximately HK$11.7 million for the year ended 31 December 2020 was primarily due to the significant drops in revenue under the COVID-19 pandemic as previously mentioned.

The increase by approximately HK$8.8 million from loss after taxation of approximately HK$11.7 million for the year ended 31 December 2020 to loss after taxation of approximately HK$20.5 million for the year ended 31 December 2021 was primarily due to the significant drops in revenue under the COVID-19 pandemic as previously mentioned.

The increase by approximately HK$31.5 million from loss after taxation of approximately HK$15.9 million for the nine months ended 30 September 2021 to profit after taxation of approximately HK$15.6 million for the nine months ended 30 September 2022 was mainly attributed to the increase in new sale orders received from its major customer.

LIQUIDITY AND FINANCIAL RESOURCES

Capital management policy

The Target Group has adopted a prudent financial management approach towards it treasury policy. The Target Company closely monitored its liquidity position to ensure that the liquidity structure of its assets, liabilities, and other commitments can meet its funding requirements.

Net current liabilities

The Target Group recorded net current liabilities of approximately HK$85.2 million, HK$103.1 million, HK$126.2 million and HK$96.9 million as at 31 December 2019, 2020 and 2021 and 30 September 2022, respectively.

Cash and cash equivalents

The balance of cash and bank equivalents of the Target Group as at 31 December 2019, 2020 and 2021 and 30 September 2022 was approximately HK$6.8 million, HK$11.3 million, and HK$2.7 million and HK$5.1 million, respectively. The cash and bank equivalents of the Target Group were mainly denominated in Renminbi.

Borrowing

The Target Group had the following outstanding borrowings as of the dates indicated below:

	As at 31 December			As at 30 September
	2019	2020	2021	2022
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Bank loans — secured and guaranteed	7,304	25,862	23,189	20,216
Import trade loans — secured	6,360	9,891	8,540	6,882
Other loans — unsecured	—	1,667	6,424	19,298
	13,664	37,420	38,153	46,336

The analysis of the carrying amount of the bank and other loans are as follows:

	As at 31 December			As at 30 September
	2019	2020	2021	2022
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
The borrowing repayable based on scheduled repayment date set out in the loan agreements, are as follows:				
Within one year or on demand	13,664	37,420	38,153	46,336

All borrowings were denominated in HK$ or RMB.

Borrowings from banks were interest bearing at variable rates of ranging from 5.22% to 5.39% per annum as at 31 December 2019; ranging from 4.79% to 5.39% per annum as at 31 December 2020; 4.79% per annum as at 31 December 2021; and ranging from 4.5% to 4.99% per annum as at 30 September 2022.

Other loans were interest bearing at fixed rates of 4.79% per annum as at 31 December 2020; 4.79% per annum as at 31 December 2021; and ranging from 0% to 6% per annum as at 30 September 2022.

Capital commitments

As at 31 December 2019, 2020 and 2021 and 30 September 2022, the Target Group had no significant capital commitment.

CHARGES ON ASSETS

As at 31 December 2019, 2020 and 2021 and 30 September 2022, the Target Group had no significant charge on its assets.

GEARING RATIO

The gearing ratio is calculated by dividing the net debt by the total equity. The Target Group recorded net liabilities of approximately HK$41.9 million, HK$53.6 million, HK$74.4 million and HK$59.3 million as at 31 December 2019, 2020 and 2021 and 30 September 2022, respectively, accordingly the gearing ratio was not calculated.

FOREIGN EXCHANGE EXPOSURES

The assets, liabilities and business transactions of the Target Group were mainly denominated in Renminbi. There was no financial arrangement for hedging purpose in respect of the Target Group for the financial years ended 31 December 2019, 2020 and 2021 and the nine months ended 30 September 2022.

CONTINGENT LIABILITIES

As at 31 December 2019, 2020 and 2021 and 30 September 2022, the Target Group had no significant contingent liability.

SIGNIFICANT INVESTMENT, MATERIAL ACQUISITION AND DISPOSAL

As at 31 December 2019, 2020 and 2021 and 30 September 2022, the Target Group did not hold any significant investments or plan for material investments or capital assets.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 September 2022, the Target Group employed a total of 353 employees. Remuneration for the employees of the Target Group includes salaries, bonuses, contributions to defined contribution retirement plan and other benefits. For the three years ended 31 December 2019, 2020 and 2021 and the nine months ended 30 September 2022, the Target Group's staff costs were approximately HK$31.6 million, HK$27.3 million, HK$22.4 million and HK$32.9 million, respectively. Employees' remunerations of the Target Group include wages and salaries, contributions to pension plans and performance-based bonuses, which are determined by their work performance, human resource market conditions and economic environment.

The Target Group's remuneration policy is reviewed on a regular basis. The Target Group provides training to its employees on a regular basis to keep them abreast of their knowledge in the Target Group's products, technology developments and market conditions of its industry. In addition, the Target Group's senior management also participates in conferences and exhibitions to deepen their knowledge in the industry.

The following is the report prepared for the purpose of incorporation in this circular received from Asset Appraisal Limited, an independent valuer, in connection with its valuation of the Target Group as at 30 September 2022.

Asset Appraisal Limited
中誠達資產評值顧問有限公司

Rm 901, 9/F., On Hong Commercial Building
145 Hennessy Road, Wanchai, Hong Kong
香港灣仔軒尼詩道145號安康商業大廈9字樓901室
Tel : (852) 2529 9448 Fax : (852) 3521 9591

Date: 13 March 2023

The Board of Directors
Ernest Borel Holdings Limited
Unit 1612–18, Level 16,
Tower 1, Grand Century Place,
193 Prince Edward Road West,
Mongkok, Kowloon, Hong Kong

Dear Sirs,

Re: Valuation of Gold Vantage Industrial Limited ("**Gold Vantage**")

INSTRUCTIONS

In accordance with the instructions from **Ernest Borel Holdings Limited** (referred to as the "**Company**") to provide value opinion on fair value of Gold Vantage for internal reference purpose.

We confirm that we have made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing our opinion of the fair value of the equity interests of Gold Vantage Group as at **30 September 2022** (referred to as the "**Valuation Date**").

We must point out that this valuation report does not constitute a technical report and does not express opinions on technologies employed by Gold Vantage or its subsidiaries (Gold Vantage and its subsidiaries are collectively referred to as "**Gold Vantage Group**"), legal title on any of its operating assets (whether tangible or intangible), environmental issues and contractual rights involved in its business operations.

The opinions expressed in this report have been based on the information supplied to Asset Appraisal Limited ("**AAL**") by the Company. Whilst AAL has confirmed that the Company has represented to AAL that full disclosure has been made of all material information and that to the best of its knowledge and understanding, such information is complete, accurate and true. AAL has no reason to doubt this representation. No responsibility is assumed by AAL for any errors or omissions in the supplied information and AAL does not accept any consequential liability arising from commercial decisions or actions resulting from them.

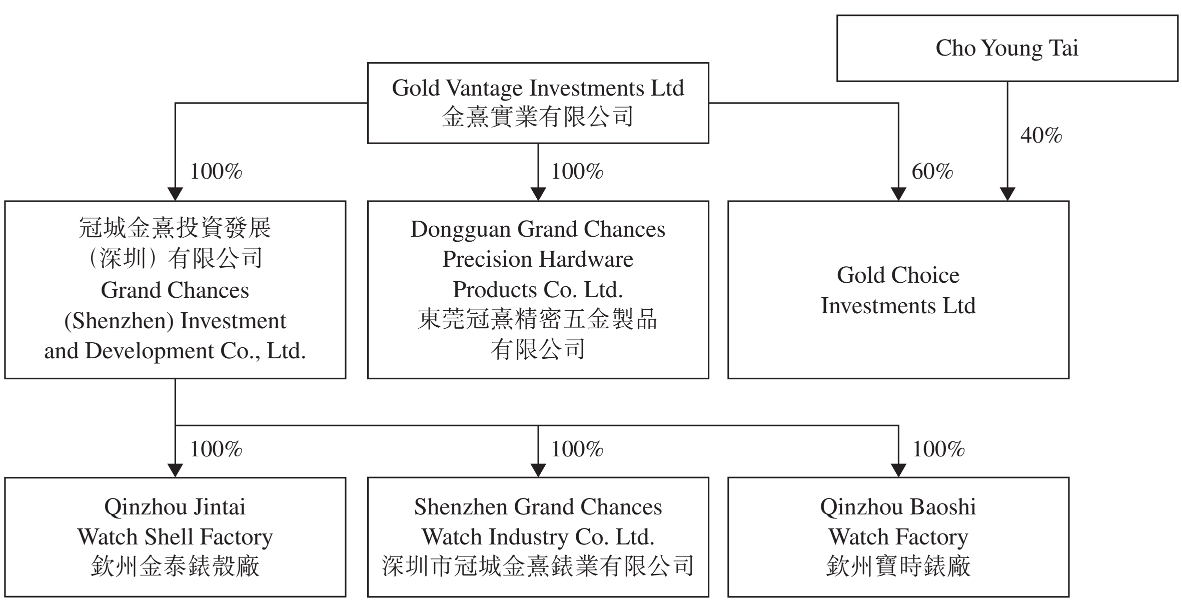
It is our understanding that this report is prepared solely for the use as one of the references for the transaction involving the equity interests in Gold Vantage Group.

The objective of AAL is to assess the Fair Value of the equity interests in Gold Vantage Group in order to provide the Company with an independent value opinion. The responsibility for determining the agreed consideration of any transaction or share transfer involving Gold Vantage Group rests solely with the Company or its subsidiaries. The results of our analysis should not be construed to be an investment recommendation. No one should rely on our report for any purchase price determination purpose or as a substitute for their own due diligence. It is inappropriate to use this valuation report for purpose other than its intended use or by third parties. These third parties should conduct their own investigation and independent assessment and underlying valuation assumptions.

Whilst we have exercised all due cares in reviewing the supplied information, the accuracy of the results and conclusions expressed herein are entirely reliant on the accuracy and completeness of the supplied data and information. No responsibility is assumed by us for any errors or omissions in the supplied information and us does not accept any consequential liability arising from commercial decisions or actions resulting from them.

BUSINESS OPERATIONS

Gold Vantage, which has been incorporated in Hong Kong, is the investment holding company of Gold Vantage Group. It is principally engaged in the manufacturing of alloy watch cases, smart watch case, smart phone components and provision of watch assembly services to its domestic and overseas customers. The organization structure of Gold Vantage Group is shown as follows:



Gold Choice Investments Ltd. ("**HK Subsidiary**") which is a 60%-owned subsidiary of Gold Vantage Group has been incorporated in Hong Kong. As confirmed by the Company, it is currently not being operated as a profit centre and is solely acting as a trading vehicle serving the foreign customers of Gold Vantage Group. As instructed by the Company, Gold Choice Investments Ltd. is regarded as a wholly-owned subsidiary of Gold Vantage on the ground that Gold Vantage shall acquire all issued shares currently not held by it from other fellow shareholders.

Dongguan Grand Chances Precision Hardware Products Co. Ltd. ("**Dongguan Subsidiary**") which has been incorporated in Dongguan City, the PRC is principally engaged in the design, development and manufacturing of stainless steel alloy watch cases, smart watch cases and smart phone components on ODM or OEM basis. Its production base is situated at Xin Tang Village Industrial Area (新塘村), Da Ling Shan Town (大岭山鎮), Dongguan City, the PRC. Leveraged on its experienced product engineers for both artistic and engineering designs, it is able to launch new watch component designs from time to time for selection by its customers or to satisfy the user requirement of its customers. Once purchaser orders are confirmed by the customers, it will then source and procure parts and raw materials from relevant suppliers and produce the products either in its own production base or by its subcontractors under its surveillance and quality controls.

Grand Chances (Shenzhen) Investment and Development Co., Ltd. which has been incorporated in Shenzhen City, the PRC on 11 July 2012 is an investment holding company and does not participate in any business operations.

Qinzhou Jintai Watch Shell Factory is a wholly-owned subsidiary of Grand Chances (Shenzhen) Investment and Development Co., Ltd. which has been incorporated in Qin Zhou, Guangxi Zhuang Autonomous Region, the PRC is principally engaged in the manufacturing of copper watch cases. Its production base is situated at Shu Guang Park (曙光園) of Electronic Industry Park (電子產業園), Hedong Industrial Park (河東工業園), Qin Zhou City, Guangxi Zhuang Autonomous Region, the PRC.

Shenzhen Grand Chances Watch Industry Co. Ltd. is a wholly-owned subsidiary of Grand Chances (Shenzhen) Investment and Development Co., Ltd. which has been incorporated in Shenzhen City, the PRC on 19 December 2012 is principally engaged in the provision of watch assembly services. Its production base is situated at Shajin Street (沙井街道), Shenzhen City, the PRC.

Qinzhou Baoshi Watch Factory is a wholly-owned subsidiary of Grand Chances (Shenzhen) Investment and Development Co., Ltd. has been incorporated in Qin Zhou, Guangxi Zhuang Autonomous Region, the PRC on 24 December 2012 is current an inactive entity having no business operations.

As instructed by the Company, Grand Chances (Shenzhen) Investment and Development Co., Ltd. together with its subsidiaries are excluded from the scope of this valuation on the ground that they shall be carved out from Gold Vantage in near term.

As revealed from the audited consolidated financial statement and operating results of Gold Vantage Group as at 31 December 2021 and as at 30 September 2022 exhibited in Appendix II of this circular, its financial positions as at the respective balance sheet dates and for the concerned period are set out as follows:

HK$'000	**As at 31 December 2021**	**As at 30 September 2022**
Non-current assets		
Property, plant and equipment	36,984	28,763
Rental deposits	791	706
Deferred tax assets	16,026	8,153
Total non-current assets	**53,801**	**37,622**
Current assets		
Inventories	13,363	12,359
Trade and other receivables	20,093	89,576
Amount due from related companies	13,880	15,715
Amounts due from non-controlling interests	2,718	3,318
Cash & bank balances	2,742	5,126
Total current assets	**52,796**	**126,094**
Total assets	**106,597**	**163,716**
Current liabilities		
Trade and other payables	19,082	55,262
Bank and other loans	38,153	46,336
Amount due to related companies	101,385	102,877
Amount due to a director	15,680	15,680
Lease liabilities	4,702	2,875
Total current liabilities	**179,002**	**223,030**
Non-current liabilities		
Lease liabilities	2,015	–
Net liabilities	**(74,420)**	**(59,314)**
Share capital	10	10
Reserves	(75,133)	(60,006)
Non-controlling interests	703	682
Equity	**(74,420)**	**(59,314)**

HK$'000	**For 12 months ended 31 December 2021**	**For 9 months ended 30 September 2022**
Revenue	55,646	154,107
Cost of sales	(58,630)	(112,694)
Gross profit	**(2,984)**	**41,413**
Other gains and losses (net)	1,546	6,163
Other income	85	1,240
Distribution and administrative expenses	(24,173)	(24,210)
Finance costs	(2,325)	(2,301)
Profit/(loss) before income tax expenses	**(27,851)**	**22,305**
Profit/(loss) before income tax expenses attributable to the 3-month period from 1 October 2021 to 31 December 2021	**(6,510)**	**N/A**

BASIS OF VALUATION

The valuation was prepared on the basis of Fair Value. International Financial Reporting Standard 13 defines Fair Value as 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.

SOURCE OF INFORMATION

In the course of our valuation, we have been furnished by the management of the Company and Gold Vantage Group (the "**Management**") with the financial and operational information of Gold Vantage, HK Subsidiary and Dongguan Subsidiary.

We made reference to or reviewed the following major documents and data:

1. Brief descriptions of the potential share transfer in relation to the transfer of registered capital of Gold Vantage;

2. Historical financial information and the financial positions of Gold Vantage, HK Subsidiary and Dongguan Subsidiary of the past 2 financial years and the recent 9 months (January to September 2022); and

3. Descriptions of business models, operating assets held and engaged by Gold Vantage Group in undertaking its normal operations.

We assumed that the data and information we obtained in the course of the valuation, along with the opinions and representations provided to us by the Management are true, accurate and complete and accepted them without independent verification except as expressly described herein. We have no reason to suspect that any material facts have been omitted, nor are we aware of any facts or circumstances, which would render the information, opinion and representations made to us to be untrue, inaccurate or misleading.

In addition, we have also obtained market data, industrial information and statistical figures from Bloomberg database and other publicly available sources.

SCOPE OF WORK AND KEY ASSUMPTIONS

Our investigation included discussion with the Management with regard to the history, operation and prospects of the businesses of Gold Vantage Group, an overview of certain financial data, an analysis of the industry and competitive environment, analysis of historical and prospective financial results, an analysis of comparable transactions, operating statistics and other due diligence documents.

In arriving at our opinion of value, we have considered the following principal factors:

- the economic outlook for the concerned market and specific competitive environments affecting the industry;
- the legal and regulatory issues of the industry in general;
- the business risks of Gold Vantage Group;
- the price multiples of the comparable companies engaging in business operations similar to Gold Vantage Group; and
- the experiences of the management team of Gold Vantage Group and support from its shareholders.

A number of general assumptions have to be made in arriving at our value conclusion. The key assumptions adopted in this valuation include:

- there will be no material changes in the laws, rules or regulations, financial, economic, market and political conditions where Gold Vantage Group operates which may materially and adversely affect its businesses;
- there will be no major changes in the current taxation law applicable to Gold Vantage, HK Subsidiary and Dongguan Subsidiary;
- Gold Vantage Group shall fulfill all legal and regulatory requirements necessary to conduct its business;
- Gold Vantage Group shall not be constrained by the availability of finance and there will be no material fluctuation of the finance costs;
- Gold Vantage Group shall have uninterrupted rights to operate its existing businesses;
- the future movement of exchange rates and interest rates will not differ materially from prevailing market expectations;
- Gold Vantage Group will retain competent management, key personnel and technical staff for their operations and the relevant shareholders will support its ongoing operations;
- The unaudited financial statements of Gold Vantage, HK Subsidiary and Dongguan Subsidiary supplied to us have been prepared in a manner truly and accurately reflected its financial positions as at the respective balance sheet dates;
- Gold Vantage Group has obtained all necessary permits and approvals to carry out its businesses and its ancillary services and shall be entitled to renew those permits and approvals upon their expiry subject to no legal impediment and costs of substantial amount;

- except those stated in the financial statements, Gold Vantage Group is free and clear of any lien, charge, option, pre-emption rights, unsettled dispute, lawsuit or other encumbrances or rights whatsoever;
- the facilities, systems and technologies utilized by Gold Vantage Group are all sound and capable in performing their designed functions for supporting the production operations and shall not infringe any relevant regulations and law and intellectual property rights of any third party; and
- the estimated fair value does not include considerations of any extraordinary financing or income guarantees, special tax considerations or any other typical benefits which may influence the ordinary value of Gold Vantage Group.

VALUATION METHODOLOGY

In the appraisal of Gold Vantage Group, we have considered three generally accepted approaches namely Cost Approach, Income Approach and Market Approach.

Cost approach establishes value based on the cost of reproducing or replacing the assets less depreciation from physical deterioration and functional and economic obsolescence, if present and measurable. This approach might be considered the most consistently reliable indication of value for assets without a known used market or separately identifiable cash flows attributable to assets appraised.

Income approach is the conversion of expected periodic benefits of ownership into an indication of value. It is based on the principle that an informed buyer would pay no more for the assets than an amount equal to the present worth of anticipated future benefits (income) from the same or equivalent assets with similar risk.

Market approach considers prices recently paid for similar assets, with adjustments made to the indicated market prices to reflect condition and utility of the appraised assets relative to the market comparable. Assets for which there is an established market may be appraised by this approach.

Given the nature of the business operations of Gold Vantage Group and the availability of market information, it is considered that the market approach is the most optimal approach to determine its fair value. Both the cost approach and the income approach have been disclaimed and have also not been engaged as secondary approach to cross-check the valuation results derived from the market approach.

Under the cost approach (also known as the asset based approach), the fair value of equity interest is determined based on the replacement costs or reproduction costs of assets rather than the ability to generate streams of benefits in the future. As the economic value of Gold Vantage Group is mainly attributable to its ability to generate revenues through its products and services but not the value or replacement costs of its assets, the cost approach is incapable to reliably reflect the value of its equity interest. Therefore, this approach has been disclaimed as both primary valuation approach and secondary approach for counter-checking purpose.

Under the income approach, the fair value of equity interest is the function of future net cash flows that can be generated from the business operations of Gold Vantage Group and the discount rate by which the future net cash flow stream is discounted to present values. The reasonableness of the fair value determined by the income approach depending on the estimation of various projected inputs including but not limiting to volume of customers' orders, production outputs, product pricing, production and operating costs and their growth rates over the projection period. Despite the fact that a business plan has been prepared by the management of Gold Vantage Group, given the uncertainty and dynamic nature of watch and ornament precision metal component businesses, it is difficult to form a reliable basis for estimating various projection inputs. Furthermore, as discussed with the management of the Company, there is tremendous uncertainty in the future market on medium to high end wrist timepiece sector, the major sector in which majority of Gold Vantage Group customers are being engaged. In the absence of reliable business projection, the income approach is considered to be not a reliable valuation approach for valuing the equity interest in Gold Vantage Group and has been disclaimed as both primary valuation approach and secondary approach for counter-checking purpose.

Gold Vantage Group, as a wrist timepiece precision metal component provider, has sufficient track records and has participated in the sector for more than 3 years. As advised by the Company, Gold Vantage Group is expected to sustain its existing business operations in long term in the future. Therefore, we have considered that market approach is the most optimal approach to determine its fair value.

The market approach determines the fair value of the assets by reference to the transaction prices, or "valuation multiples" implicit in the transaction prices, of identical or similar assets on the market. A valuation multiple is a multiple determined by dividing the transaction price paid for similar business enterprises (for guideline transaction method) or the transaction price paid for publicly traded shares of similar listing companies (for guideline public company method) by appropriate financial metrics, such as historical or prospective turnover or profit at a given level. Valuation multiples are applied to the corresponding financial metrics of the subject asset in order to value it. Adjustments are required to the transaction prices or valuation multiples to reflect the differentiating characteristics of the business enterprises and the comparable business enterprises for which the transaction prices or valuation multiples are known. In this valuation, guideline transaction method has been discarded as no recent transactions of business enterprises engaging in business operations similar to Gold Vantage Group can be identified. As such, the valuation has been proceeded with by using guideline public company method.

Selection of Comparable Companies

Several listed entities engaging in similar line of businesses have been identified and their share trading price ratios against various economic measures have been analysed for comparison purpose.

In selecting appropriate comparable companies, we have adopted the following selection criteria, all of which must be satisfied:

- the company is engaged in and is generating majority operating revenues (over 80%) from watch and/or ornament precision metal component businesses;
- the company's share trading prices and financial information are publicly available;
- the operating profit for the latest 12 months financial reporting period is positive; and
- the company's shares have more than 2 years' exchange trading history as newly listed stocks have relatively higher potential to be traded at unreasonable price level.

In the first round of selection process, we have adopted the stringent approach in searching for companies primarily engaging in precision watch metal part manufacturers and only one company meeting the selection criteria after our thorough search.

To avoid unreliable assessment results due to insufficient comparable price multiples, we have unlocked one degree of freedom in our selection criteria by including companies engaging in precision metal part manufacturing for jewelry products. The main task of precision metal parts manufacturers of watch and jewelry products is to produce metal microparts incorporated with creative designs and intricate details into the microparts. All these precision metal parts have high surface quality for aesthetic appearance and at the same time are human skin friendly. Their business models are highly similar with each other in term of production techniques, production technologies, production tools and equipment, product life cycle and operating cost structure and it is found that some of the manufacturers are producing precision parts for both types of products, especially where they have customers with brands selling both watch and jewelry products. In addition, both watch and jewelry products have long been regarded as same group of consumer products with same key demand determinants.

In 2022, Gold Vantage Group started to supply metal cases for smart watch products to enrich its customer profile for organic growth without changing its core business. As confirmed by the management of Gold Vantage Group, it is employing its intrinsic skillsets and experiences to produce smart watch metal cases without the need of significant re-engineering on its production lines. A smart watch is a wearable digital device in the form of a watch and therefore many essential functions delivered by the metal case of a traditional watch cannot be forgone even though it is applied in a smart watch. Therefore, production skillsets and experiences applicable to traditional watch metal case are employed for fulfilling the requirements of smart watch products. Many film camera metal part manufacturers have expanded their customer bases with customers producing digital cameras and many petrol vehicle metal part manufacturers have scaled up their business volume by producing metal parts for electric vehicles. These are some examples of numerous situations where well established conventional industries have seized new business opportunities from digitalization or innovation of traditional products using their intrinsic skillsets. Therefore, the production technologies, tools and equipment for smart watch cases of Gold Vantage Group are essentially similar with that for traditional watch cases and jewelry products.

Given the above selection criteria, the following 6 comparable companies have been identified for comparison purpose. As each of the comparable companies has its unique service scope and there may not be a company or companies engaging in exactly the same service scope as Gold Vantage Group. We have considered that the selected comparable companies and Gold Vantage Group are all being operated in metal component design, engineering, manufacturing and distribution for wearable timepieces and ornaments (including high precision metal components that are essential for fast and smooth assembly process in precision manufacturing). Notwithstanding the difference in the scale of operations and types of wearable products being served by the comparable companies and Gold Vantage Group, we believe the selected comparable companies are essentially exhaustive and representative for comparison and analysis of them provide a general reference as to the market valuation of companies engaging in business operations similar to Gold Vantage Group. We confirm that the valuation was conducted in accordance with relevant valuation standards, and that after taking into account all factors, we are of the view the scope and the selected comparable companies provide a meaningful and objective basis and give us sufficient information to reach a conclusion on the fair and market value of the entire equity interest of Gold Vantage Group.

Ticker	**Company Name**	**Description of Business**
3326 HK	Perfect Group International Holdings Ltd	The company operates its business through two segments. The Manufacturing and Sales of Jewelry Products Business segment manufactures and sales of jewelry products including rings, earrings, pendants, bangles, necklaces and bracelets. The Property Business segment mainly engages in the investment and development and sales of properties for the group's industry park project. For the financial year of 2021, about 84% of its operating revenues were generated from jewelry products businesses.
8219 HK	Hanvey Group Holdings Ltd	The company is principally engaged in the design and development, manufacturing and distribution of watch products. Its watch products includes female and male, metal and non-metal banded, mechanical and quartz movement watches. Its customers are located around the globe and in particular in Hong Kong, Brazil, United Arab Emirates (UAE), Turkey and European Union (EU). For the financial year of 2021, all of its operating revenues were generated from watch products businesses.

Ticker	Company Name	Description of Business
4807 TT	Regal Holding Co Ltd	The company is mainly engaged in the design, manufacture and marketing of jewelry and accessories, as well as the jewelry electroplating business. The main products and services include the design, manufacture and marketing of pendants, rings, bracelets, earrings, necklaces, cufflinks, pins and beads made of 925 sterling silver, 9K gold to 24K gold jewelry, brass and alloys. It distributes its products within domestic market and to overseas markets. For the financial year of 2021, all of its operating revenues were generated from jewelry products businesses.
7810 JP	Crossfor Co.,Ltd.	The company is a Japan-based company mainly engaged in manufacturing and sale of jewelry and accessories. It manufactures and sales jewelry and accessory products using Dancing Stone technology, EZ Clasp technology and others. It manufactures and sells jewelry products and accessories in domestic market, as well as manufactures and sells parts in overseas markets. For the financial year of 2021, all of its operating revenues were generated from jewelry products businesses.
GKDJ IN	Golkunda Diamonds & Jewellery Ltd	The company manufactures diamond studded jewelry. It offers a wide range of products including rings, pendants, earrings, bracelets, bangles and necklaces. For the financial year of 2021, all of its operating revenues were generated from jewelry products businesses.
PAJE IN	Patdiam Jewellery Ltd	The company operates as a jewelry manufacturer. It offers rings, bangles, earrings, pendants and necklaces to customers worldwide. For the financial year of 2021, about 94% of its operating revenues were generated from jewelry products businesses.

Selection of Price Multiples

Under Market approach, price multiples are the tools for conducting comparison. A valuation multiple is a ratio that relates share value to some economic measures of the comparable companies. Typical price multiples commonly used are:

- Price-to-Book Value Ratio (PB Ratio);
- Price-to-Sales Ratio (PS Ratio); and
- Price-to-Earnings Ratio (PE Ratio)

In view of the nature of business operations of Gold Vantage Group, PB Ratio is considered not appropriate for this valuation on the ground that Gold Vantage Group, which are not an investment holding company, has its fair value being determined based on its abilities to generate future income streams rather than the costs of replacement of its assets and liabilities. The company specific advantages are not captured in Price-to-Book Value Ratio. The PS Ratio is also considered not appropriate for this valuation since revenues may not consider the cost structure and profitability (which are considered primary factors affecting the value of a company of the same kind).

PE Ratio is applicable to measure business value of Gold Vantage Group as this ratio relates the business value with profitability of the business and is widely acceptable by the participants of the investment market. The economic shock and supply chain disruption caused by COVID-19 over the past 3 years have plagued many industries and corporations over the global market. Gold Vantage Group also cannot immune from the fallout of the pandemic and experienced operating loss over the past 2 fiscal years. With the recent gradual relaxation of COVID-19 control measures, the normalization of supply chain and the rebound of market demands, Gold Vantage Group began to recover, shore up their business operations and reverse from loss to gain in 2022. As confirmed by their management, the recent operating performance of Gold Vantage Group can be sustained throughout the fiscal year of 2023.

Based on the above financial figures over the trailing latest reported 12-month period that are publicly available and the closing share prices as at the Valuation Date of the selected comparable companies, the PE Ratio of comparable companies are as follows:

Company Ticker	**Cur**	**Share Closing Price as at 30 September 2022**	**Market Capitalization (Mil) *(A)***	**Net Profit (Mil) *(B)***	**Price-to-Earnings Ratio *(A)/(B)***
3326 HK	HK$	0.226	305.10	40.01	7.63
8219 HK	HK$	0.510	84.15	2.53	33.21
4807 TT	HK$	4.815	184.87	18.24	10.14
7810 JP	HK$	10.250	181.28	11.91	15.23
GKDJ IN	HK$	15.379	103.42	7.11	14.54
PAJE IN	HK$	14.761	63.72	6.03	10.56
				Sample Median	12.55

Notes:

i. Functional currency of 4807 TT is Taiwan Dollar and an exchange rate of HK$1 to TWD4.05002 has been adopted for currency translation.

ii. Functional currency of 7810 JP is Japanese Yen and an exchange rate of HK$1 to JYP18.4384 has been adopted for currency translation.

iii. Functional currency of GKDJ IN and PAJE IN is Indian Rupee and an exchange rate of HK$1 to INR10.365 has been adopted for currency translation.

Determination of 100% Share Capital of Gold Vantage Group

The mean PE Ratio of the sample group is taken as the expected multiple for determination of the value of share equity of Gold Vantage Group. Given its unaudited financial statement for the trailing 12-month period ended 30 September 2022, the equity value of Gold Vantage Group is determined as follows:

In HK$'000	**Gold Vantage Group**
Net Profit/(Loss) Before Tax over the 3-month period from 1 October 2021 to 31 December 2021	(6,510)
Net Profit/(Loss) Before Tax over the 9-month period from 1 January 2022 to 30 September 2022	22,305
Net Profit Before Tax of Trailing 12-month ended 30 September 2022	15,795
Less corporate profit tax (at standard tax rate of 25%)	(3,948.75)
Net Profit After Tax of Trailing 12-month ended 30 September 2022	11,846.25
Expected PE Ratio	12.55
Determined Share Capital Value	148,670.44
Round to	149,000

LIMITING CONDITIONS

We have accepted such information as nature of Gold Vantage Group's business operations. We have had no reason to doubt the truth and accuracy of the information provided to us by the instructing party. We were also advised by the Company that no material factors have been omitted from the information to reach an informed view, and have no reason to suspect that any material information has been withheld.

We have not carried out detailed investigation to verify the existence of the assets held by the Company but have assumed that the assets have been reasonably reflected and reported in its unaudited financial statements.

No responsibility is assumed for matters legal in nature. No investigation has been made of the title to or any liabilities against the assets valued. In this valuation, it is presumed that, unless otherwise noted, the owners' claim is valid, the property rights are good and marketable, and there are no encumbrances which cannot be cleared through normal processes.

To the best of our knowledge, all data set forth in this report are true and accurate. Although gathered from reliable sources, no guarantee is made nor liability assumed for the accuracy of any data, opinions, or estimates identified as being furnished by others which have been used in formulating this analysis.

We do not investigate any industrial safety and health related regulations in association with this particular operations. It is assumed that all necessary licenses, procedures and measures were implemented in accordance with the government legislation and guidance.

No allowance has been made in our valuation for any charges, mortgages, outstanding payments or for any expenses or taxation which may be incurred in effecting a sale. Save for those liabilities stated on book, it is assumed that Gold Vantage Group or its operating assets are free from off-balance sheet encumbrances, restrictions and outgoings of an onerous nature which could affect the value of Gold Vantage or its assets.

Neither the whole nor any part of this report can be published, disclosed or referred to in any public document without our written consent.

OPINION OF VALUES

Based upon the investigation and analysis outline above, our valuation basis, valuation assumptions and the appraisal method employed, it is our opinion that as of **30 September 2022**, the Fair Value of 100% Shareholder's Equity of Gold Vantage Group is reasonably represented by an amount of **HK$149,000,000 (HONG KONG DOLLARS ONE HUNDRED AND FORTY NINE MILLION ONLY)**.

We hereby certify that we have neither present nor prospective interest in the appraised assets or the value reported.

This conclusion of value was based on generally accepted valuation procedures and practices that rely extensively on the use of numerous assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained.

Unless stated as otherwise, an exchange rate of HK$1 to RMB0.8303 has been adopted for currency conversion in 2021 and an exchange rate of HK$1 to RMB0.8471 has been adopted for currency conversion in 2022.

We have not investigated the title to or any liabilities against the asset appraised.

Yours faithfully,
for and on behalf of
Asset Appraisal Limited

Tse Wai Leung
CFA
Director

(A) RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose 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 the information contained in this circular is accurate and complete in all material respects and is not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

(B) SHARE CAPITAL OF THE COMPANY

The authorised and issued share capital of the Company (a) as at the Latest Practicable Date; and (b) immediately following the allotment and issue of the Consideration Shares (assuming there will be no adjustment pursuant to the Profit Guarantee and no change to the total number of Shares in issue from the Latest Practicable Date to the date of issue of the Consideration Shares in full other than the issue of the Consideration Shares by the Company) will be as follows:

As at the Latest Practicable Date

Authorised:		*HK$*
10,000,000,000	Shares of HK$0.01 each	100,000,000.00
Issued and fully paid or credited as fully paid:		
347,437,000	Shares of HK$0.01 each	3,474,370.00

Immediately following the allotment and issue of the Consideration Shares (assuming there will be no adjustment pursuant to the Profit Guarantee and no change to the total number of Shares in issue from the Latest Practicable Date to the date of issue of the Consideration Shares in full other than the issue of the Consideration Shares by the Company)

Authorised:		*HK$*
10,000,000,000	Shares of HK$0.01 each	100,000,000.00
Issued and fully paid or credited as fully paid:		
347,437,000	Shares of HK$0.01 each	3,474,370.00
38,461,538	Maximum Consideration Shares to be allotted and issued pursuant to the Agreement	384,615.38
385,898,538		3,858,985.38

The Consideration Shares, credited as fully paid and free from all encumbrances if and when issued, shall rank pari passu in all respects with the other Shares in issue or to be issued by the Company on or prior to the date of allotment of the Consideration Shares.

The Consideration Shares will be allotted and issued under the General Mandate. Application will be made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares.

(C) DISCLOSURE OF INTERESTS

(a) Directors' and chief executive's interests

As at the Latest Practicable Date, the interests and short positions of the Directors, proposed Directors and chief executives of the Company in the Shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were required to be (i) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest and short positions which were taken or deemed to have been taken under such provisions of the SFO); (ii) recorded in the register maintained by the Company pursuant to Section 352 of the SFO; or (iii) notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of the Listed Issuers (the "**Model Code**") set out in Appendix 10 to the Listing Rules as adopted by the Company, were as follows:

Long position in shares of Citychamp

Name of Director	Name of associated corporation	Capacity	Number of shares	Approximate % of total shareholding(1)
Mr. Teguh Halim	Citychamp	Beneficial owner	3,000,000	0.07%
		Interest of spouse(2)	3,000,000	0.07%
Mr. Xiong Ying	Citychamp	Beneficial owner	70,000	0.00%

Note:

(1) The percentage is calculated on the basis of 4,351,888,206 shares of Citychamp in issue as at the Latest Practicable Date.

(2) The spouse of Mr. Teguh Halm holds 3,000,000 shares of Citychamp. Under the SFO, Mr. Teguh Halm is deemed to be interested in the same number of shares in which his spouse is interested.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors, proposed Directors and chief executives of the Company had any interest or short position in the Shares, underlying shares or debentures of the Company and any of its associated corporations which were required to be (i) 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 were taken or deemed to have been taken under such provisions of the SFO) or the Model Code adopted by the Company; or (ii) entered in the register required to be kept under Section 352 of the SFO.

(b) Substantial shareholders' and other persons' interests in the shares and underlying shares of the Company

As at the Latest Practicable Date, so far as was known to the Directors or chief executive of the Company based on the register maintained by the Company pursuant to Part XV of the SFO, other than the interests of the Directors, proposed Directors and chief executives of the Company as disclosed above, shareholders who had interests or short positions in the shares or underlying shares of the Company of 5% or more which need to be disclosed to the Company under the provisions of Divisions 2 and 3 of part XV of the SFO, or which were recorded in the register to be kept by the Company under Section 336 of the SFO, were as follows:

Long position in the Shares

Name of Shareholder	Capacity	Number of Shares	Approximate % of total number of issued Shares(1)
VBG Limited(2)	Beneficial owner	217,834,485	62.69%
Citychamp(2)	Interest of controlled corporation	217,834,485	62.69%
Sincere View(2 & 3)	Interest of controlled corporation	217,834,485	62.69%
Full Day(2 & 3)	Interest of controlled corporation	222,634,485	64.08%
Hon Kwok Lung(3 & 4)	Interest of controlled corporation	222,634,485	64.08%
Lam Suk Ying(3 & 4)	Interest of controlled corporation	217,834,485	62.69%
Prime Route(5)	Beneficial owner	37,935,000	10.92%
Xu Hong(5)	Interest of controlled corporation	37,935,000	10.92%

Notes:

(1) The percentage is calculated on the basis of 347,437,000 Shares in issue as at the Latest Practicable Date.

(2) 222,634,485 Shares in the issued share capital of the Company are directly held as to 217,834,485 Shares by VGB Limited and are directly held as to 4,800,000 Shares by Full Day. VGB Limited is wholly-owned and controlled by Citychamp. Citychamp is the controlled corporation of each of Sincere View and Full Day. Accordingly, each of Citychamp, Sincere View and Full Day is deemed to be interested in the Shares held by VGB Limited under Part XV of the SFO.

(3) Mr. Hon Kwok Lung held the entire issued share capital of Full Day. Sincere View is the controlled corporation of Mr. Hon Kwok Lung and Ms. Lam Suk Ying, the spouse of Mr. Hon Kwok Lung. Accordingly, each of Mr. Hon Kwok Lung and Ms. Lam Suk Ying was deemed to be interested in the Shares of the company held by VGB Limited under Part XV of the SFO.

(4) Mr. Hon Kwok Lung and Ms. Lam Suk Ying also directly held 3,500,000 shares and 1,374,000 shares in the issued share capital of Citychamp, respectively.

(5) Prime Route is a company wholly-owned and controlled by Ms. Xu Hong. Ms. Xu Hong is therefore deemed to be interested in the Shares held by Prime Route.

Save as disclosed above, as at the Latest Practicable Date, the Directors were not aware of any other persons or companies who had any interest or short position in the Shares or underlying Shares of the Company that was required to be recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO, or which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO.

(D) DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors or proposed Directors had entered into or proposed to enter into a service contract with any member of the Enlarged Group which is not determinable by the employer within one year without payment of compensation (other than statutory compensation).

(E) COMPETING INTERESTS

As at the Latest Practicable Date, so far as the Directors are aware, none of the Directors, proposed Directors or their respective close associates had any interests in a business which competes or may compete, either directly or indirectly, with the business of the Enlarged Group or any other conflicts of interests with the Enlarged Group.

(F) DIRECTORS' INTERESTS IN ASSETS, CONTRACTS OR ARRANGEMENTS

As at the Latest Practicable Date, the Target Company is wholly owned by the Vendor. The Vendor is owned as to 25% by Citychamp. Mr. Teguh Halim, the chairman of the Board and the executive Director, is an executive director of Citychamp and a director of the Target Company. Mr. Teguh Halim is also a shareholder of Citychamp, holding approximately 0.07% of the total issued share capital of Citychamp. Mr. Xiong Ying, the non-executive Director, is a shareholder of Citychamp, holding 0.0016% of the total issued share capital of Citychamp.

Save as disclosed above, as at the Latest Practicable Date:

(a) none of the Directors was materially interested, directly or indirectly, in any contract or arrangement subsisting, which was significant in relation to the business of the Enlarged Group; and

(b) none of the Directors nor their respective associates had any direct or indirect interests in any assets which had been acquired or disposed of by or leased to, or were proposed to be acquired or disposed of by or leased to, any member of the Enlarged Group since 31 December 2021, being the date to which the latest published audited consolidated financial statements of the Group were made up.

(G) LITIGATION

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

(H) MATERIAL CONTRACTS

The following contracts, not being contracts entered in the ordinary course of business of the Enlarged Group, have been entered into by the members of the Enlarged Group within two years preceding the Latest Practicable Date and which are, or may be, material:

(a) the Agreement.

(I) EXPERTS' QUALIFICATIONS AND CONSENTS

The following are the qualifications of the experts who have given its opinions and advices which are included in this circular:

Name	Qualifications
BDO Limited	Certified Public Accountants, Registered Public Interest Entity Auditor in accordance with the Accounting and Financial Reporting Council Ordinance
Asset Appraisal Limited	Independent professional valuer

The above experts have given and have not withdrawn their written consent to the issue of this circular with the inclusion of their letters/reports dated 13 March 2023 in the form and context in which they are included and all references to their names in the form and context in which they respectively appear.

As at the Latest Practicable Date, the above experts were not beneficially interested in the share capital of any member of the Enlarged Group nor did it have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Enlarged Group nor did it have any interest, either direct or indirect, in any assets which have been, since 31 December 2021, the date to which the latest published audited consolidated financial statements of the Group were made up, acquired, disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

(J) CORPORATE AND OTHER INFORMATION

The registered office of the Company is situated at Second Floor, Century Yard, Cricket Square, P.O. Box 902, Grand Cayman, KY1-1103, Cayman Islands.

The head office of the Company in Switzerland is situated at 8, rue des Perrières 2340 Le Noirmont, Switzerland.

The principal place of business in Hong Kong of the Company is situated at Unit 1612–18, Level 16, Tower 1, Grand Century Place, 193 Prince Edward Road West, Mongkok, Kowloon, Hong Kong.

The company secretary of the Company is Mr. Ng Kin Sun. Mr. Ng Kin Sun became a member of CPA Australia and the Hong Kong Institute of Certified Public Accountants in August 1997 and April 1998 respectively. Mr. Ng has over 25 years of experience in auditing and financial management, company secretarial matters and regulatory compliance matters gained from various international accounting firms and listed companies.

The Hong Kong branch share registrar and transfer office of the Company is Tricor Investor Services Limited, whose address is at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong.

(K) DOCUMENTS ON DISPLAY

Copies of the following documents will be published on the website of the Stock Exchange (https://www.hkexnews.hk) and the website of the Company (https://www.ernestborel.ch) for the period of 14 days commencing from the date of this circular:

1. the audited consolidated financial information of the Target Company, the text of which is set out in Appendix II to this circular;

2. the letter on the unaudited pro forma financial information of the Enlarged Group issued by BDO Limited, the text of which is set out in Appendix III to this circular;

3. the Valuation Report on the Target Group, the text of which is set out in Appendix V to this circular;

4. the written consents referred to in the paragraph headed "Experts' Qualifications and Consents" in this appendix; and

5. the Agreement.

ERNEST BOREL 1856

ERNEST BOREL HOLDINGS LIMITED

依波路控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1856)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the "**EGM**") of Ernest Borel Holdings Limited (the "**Company**") will be held at 10/F., United Centre, 95 Queensway, Admiralty, Hong Kong on Wednesday, 29 March 2023 at 3:00 p.m. for the purpose of considering and, if thought fit, passing, with or without modifications, the following resolution.

Words and expressions that are not expressly defined in this notice of EGM shall bear the same meaning as that defined in the circular to the shareholders of the Company dated 13 March 2023 (the "**Circular**").

ORDINARY RESOLUTION

"**THAT**:

(a) the Agreement dated 21 November 2022 (as amended and supplemented by the Supplemental Agreement dated 8 December 2022) entered into between the Purchaser and the Vendor in relation to the Acquisition of the entire equity interest in the Target Company and the consummation of transactions contemplated thereunder as more particularly described in the Circular and on the terms and conditions set out in the Agreement be hereby approved, ratified and confirmed; and

(b) authorisation be granted to any one Director to complete and do all such acts or things (including executing all such documents, instruments and agreements as may be required) as the Company, such Director or, as the case may be, the Board may consider necessary, desirable or expedient or in the interest of the Company to give effect to the terms of the matters contemplated under the Agreement (as amended and supplemented by the Supplemental Agreement) and all transactions contemplated thereunder and all other matters incidental thereto or in connection therewith."

By order of the Board
Ernest Borel Holdings Limited
Teguh Halim
Chairman

Hong Kong, 13 March 2023

Notes:

1. A shareholder of the Company entitled to attend and vote at the above meeting is entitled to appoint one proxy or more than one proxy (if he holds two or more shares) who must be an individual or individuals to attend and vote instead of him. A proxy does not need to be a shareholder of the Company.

2. The instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of such power of attorney or authority, must be deposited with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, for registration not less than 48 hours before the time appointed for holding the meeting and any adjourned meeting.

3. For determining the entitlement to attend and vote at the EGM, the register of members of the Company will be closed from Friday, 24 March 2023 to Wednesday, 29 March 2023 both days inclusive, during which period no transfer of shares of the Company will be registered. In order to be eligible to attend and vote at the EGM, unregistered holders of shares of the Company should ensure that all the share transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, for registration not later than 4:30 p.m. on Thursday, 23 March 2023.

4. If typhoon signal no. 8 or above remains hoisted or a black rainstorm warning signal is in force at 8:00 a.m. on the date of the EGM, the EGM will be postponed. The Company will post an announcement on the Company's website at www.ernestborel.ch and the website of the Stock Exchange at http://www.hkexnews.hk to notify shareholders of the date, time and place of the rescheduled meeting.

5. Shareholders are advised to read the Circular which contains information concerning the resolution to be proposed at the EGM.

As at the date of this notice, the Board comprises of the following members:

Executive Directors:	Mr. Teguh Halim and Ms. Lam Lai
Non-executive Directors:	Mr. Xiong Ying
Independent Non-executive Directors:	Mr. To Chun Kei, Mr. Hui Cheuk Kit Frederick and Ms. Chan Lai Wa