

# SHARE OFFER



Sole Sponsor



Joint Bookrunners



Kelfred Holdings Limited  
恒發光學控股有限公司

(incorporated in the Cayman Islands with limited liability)  
Stock Code: 1134

## IMPORTANT

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

### Kelfred Holdings Limited

### 恒發光學控股有限公司

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

#### SHARE OFFER

Number of Offer Shares in the Share Offer	: 125,000,000 Shares
Number of Public Offer Shares	: 12,500,000 Shares (subject to reallocation)
Number of Placing Shares	: 112,500,000 Shares (subject to reallocation)
Offer Price	: Not more than HK\$1.2 per Offer Share and expected to be not less than HK\$1.0 per Offer Share plus brokerage of 1%, Stock Exchange trading fee of 0.005% and SFC transaction levy of 0.0027% (payable in full on application, subject to refund on final pricing)
Nominal value	: HK\$0.01 per Share
Stock code	: 1134

#### Sole Sponsor



**信達國際**  
CINDA INTERNATIONAL

#### Joint Bookrunners



**信達國際**  
CINDA INTERNATIONAL



**聯合證券**  
Head & Shoulders Securities

#### Joint Lead Managers



**信達國際**  
CINDA INTERNATIONAL



**聯合證券**  
Head & Shoulders Securities



**一盈證券有限公司**  
I WIN SECURITIES LTD.

**Sinomax Securities Ltd.**  
佳富達證券

#### Co-Lead Managers



**首盛資本集團**  
Alpha Financial Group



**禹洲金控**  
YUZHOU FINANCIAL HOLDINGS

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

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

Investors applying for the Public Offer Shares must pay, on application, the indicative maximum Offer Price of HK\$1.2 per Offer Share together with brokerage of 1%, Stock Exchange trading fee of 0.005% and SFC transaction levy of 0.0027%, subject to refund. The Offer Price is expected to be fixed by the Price Determination Agreement between the Joint Bookrunners (for themselves and on behalf of the Underwriters) and our Company on or about Tuesday, 9 July 2019. If, for any reason, the Joint Bookrunners (for themselves and on behalf of the Underwriters) and our Company are unable to reach an agreement on the Offer Price by that date or such later date, the Share Offer will not become unconditional and will lapse immediately. In such case, an announcement will be published by our Company on the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and our website at [www.kelfred.com.hk](http://www.kelfred.com.hk). The Offer Price is expected to be not more than HK\$1.2 per Offer Share and not less than HK\$1.0 per Offer Share.

The Joint Bookrunners (for themselves and on behalf of the Underwriters) may, with consent of our Company, reduce the number of Offer Shares being offered under the Share Offer and/or the indicative Offer Price range below that stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Public Offer. In such a case, an announcement will be published on the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and our website at [www.kelfred.com.hk](http://www.kelfred.com.hk) not later than the morning of the day which is the last day for lodging applications under the Public Offer.

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

Prospective investors of the Share Offer should note that the Underwriters are entitled to terminate their obligations under the Underwriting Agreements by notice in writing to be given by the Joint Bookrunners (for themselves and on behalf of the Underwriters) upon the occurrence of any of the events set forth in the section headed "Underwriting — Underwriting Arrangements and Expenses — The Public Offer — Grounds for termination" in this prospectus at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date. Should the Joint Bookrunners (for themselves and on behalf of the Underwriters) terminate the Underwriting Agreements, the Share Offer will not proceed and will lapse.

The Offer Shares have not been and will not be registered under the US Securities Act or any state securities law in the United States and may not be offered, sold, pledged or transferred within the United States or to, or for the account or benefit of US persons (as defined in Regulation S) except in transactions exempt from, or not subject to, the registration requirements of the US Securities Act.

29 June 2019

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## EXPECTED TIMETABLE

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*If there is any change in the following expected timetable of the Share Offer, we will issue an announcement in Hong Kong to be published on the websites of the Hong Kong Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and our Company at [www.kelfred.com.hk](http://www.kelfred.com.hk).*

**Date** <sup>(1)</sup>

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

Application Forms available from . . . . . 9:00 a.m. on  
Saturday, 29 June 2019

Latest time to complete electronic applications under

**HK eIPO White Form** service through the designated

website [www.hkeipo.hk](http://www.hkeipo.hk) <sup>(2)</sup> . . . . . 11:30 a.m. on  
Monday, 8 July 2019

Application lists for Public Offer open <sup>(3)</sup> . . . . . 11:45 a.m. on  
Monday, 8 July 2019

Latest time for lodging **WHITE** and

**YELLOW** Application Forms . . . . . 12:00 noon on  
Monday, 8 July 2019

Latest time to give **electronic application**

**instructions** to HKSCC <sup>(4)</sup> . . . . . 12:00 noon on  
Monday, 8 July 2019

Latest time to complete payment of **HK eIPO White Form**

applications by effecting internet banking transfer(s) or

PPS payment transfer(s) . . . . . 12:00 noon on  
Monday, 8 July 2019

Application lists for Public Offer close <sup>(3)</sup> . . . . . 12:00 noon on  
Monday, 8 July 2019

Expected Price Determination Date on or about <sup>(5)</sup> . . . . . Tuesday, 9 July 2019

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## EXPECTED TIMETABLE

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Announcement of (i) the Offer Price; (ii) the indication of the level of interest in the Placing; (iii) the level of applications of the Public Offer; (iv) the basis of allocation of the Public Offer Shares; and (v) the number of Offer Shares reallocated, if any, between the Public Offer and the Placing to be published on the Company's website at [www.kelfred.com.hk](http://www.kelfred.com.hk) and the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) on or before .....Monday, 15 July 2019

Announcement of results of allocations in the Public Offer (with successful applicants' identification document numbers, where appropriate) to be available through a variety of channels including the Company's website at [www.kelfred.com.hk](http://www.kelfred.com.hk) and the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) (for further details, please refer to the section headed "How to Apply for Public Offer Shares – 11. Publication of results" in this prospectus) on or before .....Monday, 15 July 2019

Results of allocations in the Public Offer will be available at [www.tricor.com.hk/ipo/result](http://www.tricor.com.hk/ipo/result) and [www.hkeipo.hk/iporesult](http://www.hkeipo.hk/iporesult) with a "search by ID" function from .....Monday, 15 July 2019

Despatch/collection of refund cheques and **HK eIPO White Form** e-Auto Refund payment instructions in respect of wholly or partially unsuccessful applications and wholly or partially successful applications (if applicable) in case the final Offer Price is less than the maximum Offer Price paid for the applications pursuant to the Public Offer on or before <sup>(7, 8, 9 & 10)</sup> .....Monday, 15 July 2019

Despatch/collection of Share certificates or deposit of the Share certificates into CCASS in respect of wholly or partially successful applications pursuant to the Public Offer on or before<sup>(6, 7, 8, 9, 10 & 11)</sup> .....Monday, 15 July 2019

Dealings in Shares on the Main Board expected to commence at 9: 00 a.m. on ..... Tuesday, 16 July 2019

*The application for the Public Offer will commence on Saturday, 29 June 2019 through Monday, 8 July 2019. Such time period is longer than the normal market practice of four days. The application monies (including brokerage fee, SFC transaction levy and Hong Kong Stock Exchange trading fee) will be held by the receiving bank on behalf of our Company and the refund monies, if any, will be returned to the applicant(s) without interest on Monday, 15 July 2019. Investors should be aware that the dealings in the Shares on the Stock Exchange are expected to commence on Tuesday, 16 July 2019.*

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## EXPECTED TIMETABLE

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*Notes:*

1. All times and dates refer to Hong Kong local time, except as otherwise stated. Details of the structure of the Share Offer, including its conditions, are set out in the section headed “Structure and Conditions of the Share Offer” in this prospectus.
2. You will not be permitted to submit your application through the designated website at [www.hkeipo.hk](http://www.hkeipo.hk) after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained a payment reference number from the designated website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.
3. If there is a “black” rainstorm warning or a tropical cyclone warning signal number 8 or above in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Monday, 8 July 2019, the application lists will not open on that day. For further details, please see the section headed “How to Apply for Public Offer Shares – 10. Effect of bad weather on the opening of the application lists” in this prospectus.
4. Applicants who apply for Public Offer Shares by giving **electronic application instructions** to HKSCC should refer to the section headed “How to Apply for Public Offer Shares – 6. Applying by giving **electronic application instructions** to HKSCC via CCASS” in this prospectus.
5. The Price Determination Date is expected to be on or about Tuesday, 9 July 2019. If, for any reason, the Offer Price is not agreed on or before Tuesday, 9 July 2019 between the Company and the Joint Bookrunners (for themselves and on behalf of the Underwriters), the Share Offer will not proceed and will lapse accordingly.
6. Share certificates for the Public Offer Shares are expected to be issued on or before Monday, 15 July 2019 but will only become valid certificates of title at 8:00 a.m. on Tuesday, 16 July 2019 provided that (a) the Share Offer has become unconditional in all respects; and (b) none of the Underwriting Agreements has been terminated in accordance with its terms.
7. Applicants for 1,000,000 Public Offer Shares or more on **WHITE** Application Form(s) and have provided all information required may collect their refund cheques (where relevant) and/or Share certificates (where relevant) personally from our Hong Kong Branch Share Registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong from 9:00 a.m. to 1:00 p.m. on Monday, 15 July 2019 or any other day as announced by us as the date of despatch/collection of Share certificates/refund cheques/e-Auto Refund payment instructions. Individuals who are eligible for personal collection must not authorise any other person(s) to make collection on their behalf. Corporate applicants which are eligible for personal collection must attend by their authorised representative(s) bearing a letter of authorisation from such corporation(s) stamped with the corporation’s chop. Both individuals and authorised representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to our Hong Kong Branch Share Registrar.
8. Applicants for 1,000,000 Public Offer Shares or more on **YELLOW** Application Forms and have provided all information required may collect their refund cheques, if any, in person but may not collect their Share certificates personally which will be deposited into CCASS for the credit of their designated CCASS Participants’ stock accounts or CCASS Investor Participants’ stock accounts, as appropriated. The procedures for collection of refund cheques for **YELLOW** Application Form applicants are the same as those for **WHITE** Application Form applicants.

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## EXPECTED TIMETABLE

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9. e-Auto Refund payment instructions/refund cheques will be issued in respect of wholly or partially unsuccessful applications and also in respect of successful applications in the event that the Offer Price is less than the initial price per Public Offer Share payable on application. Part of your Hong Kong identity card number/passport number, or, if you are joint applicants, part of the Hong Kong identity card number/passport number of the first-named applicant, provided by you may be printed on your refund cheque, if any. Such data would also be transferred to a third party to facilitate your refund. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque. Inaccurate completion of your Hong Kong identity card number/passport number may lead to delay in encashment of your refund cheque or may invalidate your refund cheque. Further information is set out in the section headed “How to Apply for Public Offer Shares” in this prospectus.

Applicants who apply through the **HK eIPO White Form** service and paid their applications monies through single bank account may have refund monies (if any) despatched to their application payment bank account, in the form of e-Auto Refund payment instructions. Applicants who apply through the **HK eIPO White Form** service and paid their application monies through multiple bank accounts may have refund monies (if any) despatched to the address as specified in their application instructions to the **HK eIPO White Form** Service Provider, in the form of refund cheques, by ordinary post at their own risk.

10. Uncollected Share certificates and refund cheques (if any) will be despatched by ordinary post at the applicant’s own risk to the address specified in the relevant Application Form. For further information, applicants should refer to the section headed “How to Apply for Public Offer Shares – 14. Despatch/collection of share certificates and refund monies” in this prospectus.
11. Share certificates will only become valid certificates of title provided that (i) the Share Offer has become unconditional in all respects and (ii) neither of the Underwriting Agreements has been terminated in accordance with its terms. Investors who trade Shares on the basis of publicly available allocation details prior to the receipt of their Share certificates or prior to the Share certificates becoming valid certificates of title do so entirely at their own risk.

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

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### IMPORTANT NOTICE TO INVESTORS

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

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

*Information contained in our website, located at [www.kelfred.com.hk](http://www.kelfred.com.hk), does not form part of this prospectus.*

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## SUMMARY

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

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

### OVERVIEW

Founded in 1986, we are an established eyewear manufacturer in the PRC and Hong Kong that produce and sell a wide range of spectacle frames and sunglasses mainly through ODM and OEM business models. Our integrated and customised services offering include product design and development, raw materials procurement, production, quality control, packaging and delivery.

Leveraging on our over 30 years of experience in the eyewear industry, we pride ourselves on our broad network of renowned and trusted customers worldwide (who are primarily international eyewear retailers, trading companies and licensed brand owners). We have produced quality eyewear products under our customers’ designated brand names and sold the same to 36 countries during the Track Record Period, including but not limited to Netherlands, Italy, United Kingdom and the United States. During the Track Record Period, our sales covered all the top ten spectacle frame importing countries around the globe in 2018 in terms of trade value according to the Frost & Sullivan Report. In particular, our sales to Europe in aggregate accounted for over 65% of our revenue for each of the years ended 31 December 2016, 2017 and 2018, respectively.

We have grown our business from trading into manufacturing and sale of quality eyewear products through our dealings over the years. We established our first major production base, namely our Shenzhen Production Base, in Shenzhen, the PRC in 2013, and set up our second and self-owned production base, namely our Jiangxi Production Base, in Jiangxi, the PRC in 2016, which made us capable of manufacturing eyewear products of various dimensions and specifications as required by our customers. We also engaged subcontractors in the PRC to manufacture products and perform certain production steps at their facilities for us from time to time during the Track Record Period with the consent from our customers.

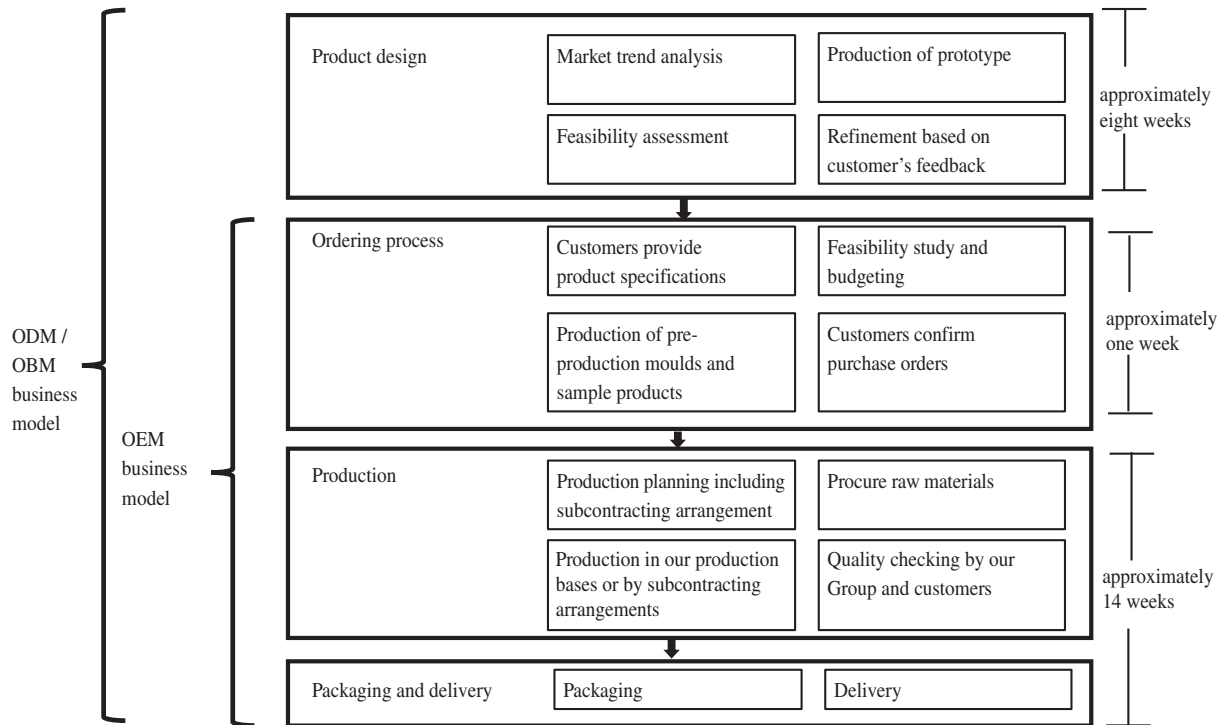
We operate our business through the OEM and ODM business model. In addition to the traditional OEM business model whereby we manufacture eyewear based on our customers’ designs and specifications, we also offer design-driven ODM products to our customers. For our ODM business, we undertake the design and development of eyewear products ourselves, based on either our own design plans or design concepts provided by our customers, and then manufacture the eyewear products under the brand names designated by our customers.

Our Directors believe that with our experience in the eyewear industry and extensive sales network worldwide, the development and sales of our own branded products would be conducive to our long-term development and growth as these may enhance our brand visibility and market position. As such, we commenced offering our OBM products under the brand “miga” in 2016 to diversify our revenue streams, enlarge our customer base and solidify our competitive position.

## SUMMARY

### BUSINESS MODEL

Our business involves the manufacturing and export of eyewear. The following diagram set forth our Group's business model:



### PRODUCTS

Our products can be categorised into (i) spectacle frames; and (ii) sunglasses, which are generally made of metal or acetate, and sometimes a combination of both. On our customers' demand, spare parts such as temples and sunglasses lens were sold to our customers. During the Track Record Period, we manufactured a diversified product portfolio of over 3,200 kinds of spectacle frames and sunglasses in aggregate. The following tables set out the breakdown of our revenue, sales volume and average selling price by product categories during the Track Record Period:

	For the year ended 31 December					
	2016		2017		2018	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Spectacle frames	286,533	90.1	288,893	79.7	341,503	81.1
Sunglasses	29,756	9.4	71,221	19.6	77,754	18.5
Spare parts	1,707	0.5	2,661	0.7	1,837	0.4
<b>Total</b>	<b>317,996</b>	<b>100.0</b>	<b>362,775</b>	<b>100.0</b>	<b>421,094</b>	<b>100.0</b>

## SUMMARY

	For the year ended 31 December					
	2016	2017		2018		
	Average selling price HK\$	Sales volume Units '000	Average selling price HK\$	Sales volume Units '000	Average selling price HK\$	Sales volume Units '000
<b>Spectacle frames</b>						
Acetate	90.9	1,656	87.4	1,935	82.4	2,193
Metal	81.9	1,659	82.6	1,451	69.4	2,317
		3,315		3,386		4,510
<b>Sunglasses</b>						
Acetate	97.3	203	107.8	339	102.8	319
Metal	121.5	82	99.5	349	97.7	460
		285		688		779
<b>Spare parts (Note)</b>	15.9	108	16.2	164	14.0	131

*Note:* Spare parts included temples and sunglasses lens.

The table below sets out our Group's rolling backlog of orders by (i) sales volume; and (ii) value for each of the Track Record Period and as at the Latest Practicable Date:

	For the year ended 31 December						From 1 January 2019 to Latest Practicable Date	
	2016		2017		2018			
	Sales volume Units'000	Value HK\$'000	Sales volume Units'000	Value HK\$'000	Sales volume Units'000	Value HK\$'000	Sales volume Units'000	Value HK\$'000
Opening balance as at								
1 January	943	83,363	1,491	131,969	1,584	144,042	1,551	131,927
Addition	4,256	366,602	4,331	374,848	5,387	408,979	2,642	213,019
Sales	(3,708)	(317,996)	(4,238)	(362,775)	(5,420)	(421,094)	(2,129)	(181,882)
Ending balance at the end of the period	1,491	131,969	1,584	144,042	1,551	131,927	2,064	163,064

## PRODUCTION PROCESS AND PRODUCTION BASES

Our production process involves (i) baking of cellulose acetate slabs / brazing and sculpting of metal frames; (ii) processing of frames and temples; (iii) polishing; (iv) electroplating (for metal only); (v) assembling; (vi) packaging; and (vii) storage. During the Track Record Period, we fulfilled our purchase orders by manufacturing in our production bases as well as by engaging subcontractors. Our two production bases, namely Shenzhen Production Base and Jiangxi Production Base, have three production lines each. During the Track Record Period, our two production bases achieved aggregate utilisation rates of approximately 79.6%, 81.8% and 83.5%, respectively. The utilisation rate of our Shenzhen Production Base during the Track Record Period were approximately 85.4%, 71.1% and 85.9%, while that of Jiangxi Production Base were approximately 34.0%, 103.8% and 81.4% in the corresponding period. For details on our production bases and subcontracting arrangements, please refer to the paragraph headed “Business — Production” and “Business — Suppliers and Subcontractors” in this prospectus.

## SUMMARY

### COMPETITIVE STRENGTHS

We believe the key competitive strengths include: (i) we have a stable and established customer base that span across multiple countries; (ii) we possess strong eyewear product design and development capabilities; (iii) we have strong commitment on craftsmanship and quality of our eyewear products; and (iv) we have a competent management team with experience and knowledge in the eyewear industry.

### BUSINESS STRATEGIES

We intend to strengthen our market position and increase our market share by pursuing the following strategies: (i) increase the level of automation in our production process and further enhance our production efficiency and capacity; (ii) expansion of customer base in the United States and Asia market and promotion of our brand; (iii) strengthen our design and development capability; and (iv) continue to enhance our quality control capability.

### CUSTOMERS

Our customers are mainly international eyewear retailers, trading companies and licensed brand owners. During the Track Record Period, the aggregate revenue attributable to our top five customers were HK\$257.7 million, HK\$280.6 million and HK\$324.0 million, respectively, which accounted for approximately 81.1%, 77.3% and 77.0% of our total revenue, respectively. For the same period, revenue attributable to our largest customer was approximately HK\$89.0 million, HK\$100.2 million and HK\$120.9 million, which accounted for approximately 28.0%, 27.6% and 28.7% of our total revenue, respectively. We generally enter into framework sale and purchase agreements with our customers and make subsequent purchase orders for each transaction. We grant our customers credit period ranging from 30 to 120 days from the invoice date. For new customers, we normally require them to make the payment in advance or by cash on delivery. For further details, please refer to the section headed “Business — Customers” in this prospectus.

Our pricing policy is on a “cost-plus” basis. As each product has its own specifications or requirements, the pricing of each product is negotiated and determined on a case by case basis. Our Group provides sales rebate on a yearly basis to certain of our customers. We used the progressive rate arrangement, whereby the rebate rate (normally ranging from 1.0% to 4.0%) increases as the total sales amount or units purchased from our Group within the contract period increases.

During the Track Record Period, our products were sold to customers located in 36 countries around the world, and Europe was our largest market. The following table sets out information about our revenue by geographical segment for the three years ended 31 December 2018:

	For the year ended 31 December					
	2016		2017		2018	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Key European Countries <sup>(Note 1)</sup>	228,099	71.8	262,413	72.3	292,020	69.3
Hong Kong	35,769	11.2	38,357	10.6	41,246	9.8
United States	21,963	6.9	17,916	4.9	20,577	4.9
Others <sup>(Note 2)</sup>	32,165	10.1	44,089	12.2	67,251	16.0
	<u>317,996</u>	<u>100.0</u>	<u>362,775</u>	<u>100.0</u>	<u>421,094</u>	<u>100.0</u>

Notes:

- Key European Countries include Netherlands, Italy, United Kingdom, France and Hungary.
- Others include, without limitation, the PRC, Japan, South Korea, India, Canada, Spain, Germany, Australia, Argentina, Brazil, Mexico, South Africa and United Arab Emirates.

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## SUMMARY

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During the Track Record Period, a majority of our revenue are denominated in USD but the costs incurred by our Group in our manufacturing process are mainly denominated in RMB. As at 31 December 2016, 2017 and 2018, approximately 80.1%, 82.4% and 78.3% of our trade receivables are denominated in USD. We are therefore exposed to foreign currency risks as a result of sales that are denominated in a currency other than RMB. Our Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities, but we monitor our foreign currency exposure closely and will consider hedging significant foreign currency exposure should the trend arises.

### **Customer concentration**

Our Directors consider that the concentration of our customers would not render our Company unsuitable for Listing after considering (i) it is within industry norm for our top five customers to consolidate their suppliers to a limited number; (ii) our production bases are capable to manufacture for and we have the necessary resources and design capability to serve other customers; (iii) the diverse geographical coverage of our sales; (iv) the positive eyewear industry landscape; (v) our Group's continued effort to introduce new customers; and (vi) our experienced management team.

### **Sales and marketing**

As at the Latest Practicable Date, we have 44 full-time employees responsible for our sales and marketing activities, including solicitation of new customers, enquiries handling, customer services, preparation for participation in exhibitions and production of marketing materials. To increase public awareness of our products, we placed advertisements through different media, such as social media platforms and the internet. From time to time, our management attend both domestic and international industry exhibitions.

### **SUPPLIERS AND SUBCONTRACTORS**

We generally procure the raw materials used in our production process from suppliers based in the PRC. In addition to suppliers, we also engage subcontractors to manufacture whole eyewear products or perform part of our production processes with the consent from our customers. During the Track Record Period, the amount of purchases of our five largest suppliers/subcontractors of our Group in aggregate amounted to approximately HK\$63.0 million, HK\$74.3 million and HK\$60.2 million, respectively, which accounted for approximately 29.6%, 31.6% and 23.9% of our total purchases. For the same period, our amount of purchases from our largest supplier/subcontractor amounted to approximately HK\$15.5 million, HK\$20.1 million and HK\$16.0 million, respectively, which accounted for approximately 7.3%, 8.5% and 6.3% of our total purchases.

### **COMPETITIVE LANDSCAPE**

According to the Frost & Sullivan Report, the retail sales of eyewear products in Europe is expected to grow at a CAGR of 4.2% from 2019 and reach USD28.6 billion in 2023, while the PRC and Hong Kong was the largest and the third largest exporter of spectacle frames in 2018, respectively. Further, the spectacle frame manufacturing market in the PRC is highly fragmented with over 6,000 manufacturers in the PRC according to the Frost & Sullivan Report. According to Frost & Sullivan, our Group was the fifth largest spectacle frame manufacturer and exporter in Hong Kong with an estimated market share of approximately 3.3% in 2018. For further details, please refer to the section headed "Industry Overview — Competitive Landscape of Spectacle Frame Manufacturing and Export Market in China and Hong Kong" in this prospectus.

### **SUMMARY OF FINANCIAL INFORMATION**

The tables below are summaries of our Group's consolidated results for the Track Record Period, which were extracted from the Accountants' Report as set out in Appendix I to this prospectus.

## SUMMARY

### Summary of consolidated statements of profit or loss and other comprehensive income

	For the year ended 31 December		
	2016	2017	2018
	HK\$'000	HK\$'000	HK\$'000
Revenue	317,996	362,775	421,094
Cost of sales	(230,806)	(268,870)	(324,412)
Gross profit	87,190	93,905	96,682
Profit before tax	54,152	40,908	38,366
Profit for the year	44,789	32,887	31,025

### Summary of consolidated statements of financial position

	As at 31 December		
	2016	2017	2018
	HK\$'000	HK\$'000	HK\$'000
Non-current assets	38,066	49,667	41,885
Current assets	170,342	209,317	173,397
Current liabilities	105,424	109,623	117,624
Net current assets	64,918	99,694	55,773
Non-current liabilities	1,195	1,016	294
Total equity/Net assets	101,789	148,345	97,364

Our net assets decreased from approximately HK\$148.3 million as at 31 December 2017 to approximately HK\$97.4 million as at 31 December 2018, which was primarily due to the combined effect of (i) dividends of approximately HK\$89.6 million; (ii) issue of shares of approximately HK\$12.0 million for the increase of registered capital of Shenzhen Hua Qing; and (iii) profit and total comprehensive income for the year ended 31 December 2018 of approximately HK\$26.6 million.

### Summary of consolidated statements of cash flows

	For the year ended 31 December		
	2016	2017	2018
	HK\$'000	HK\$'000	HK\$'000
Net cash generated from operating activities	53,953	28,380	12,322
Net cash used in investing activities	(46,169)	(40,256)	(37,622)
Net cash generated from financing activities	12,745	3,156	25,098
Effect of foreign exchange rate changes	(1,452)	2,200	(2,109)
Net increase/(decrease) in cash and cash equivalents	19,077	(6,520)	(2,311)
Cash and cash equivalents at beginning of the year	7,626	26,703	20,183
Cash and cash equivalents at the end of the year	26,703	20,183	17,872

Our net cash generated from operating activities for the years ended 31 December 2016, 2017 and 2018 were approximately HK\$54.0 million, HK\$28.4 million and HK\$12.3 million, respectively. The decrease of our net cash generated from operating activities for the year ended 31 December 2018 to approximately HK\$12.3 million was primarily contributed by our profit before tax of approximately HK\$38.4 million, and offset by the increase in trade receivables of approximately HK\$11.4 million mainly due to the increase in revenue, the increase of inventories of approximately HK\$9.7 million as there was an increase in work in progress and finished goods, and the decrease in trade payables of approximately of HK\$5.5 million.

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## SUMMARY

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Our cash flow decrease due to potential mismatch in time between receipt of payments from our customers and payments to our suppliers. While our suppliers generally grant us a credit period of 30 to 90 days, the credit terms with our customers range from 30 to 120 days, resulting in time lags. As such, for the years ended 31 December 2016, 2017 and 2018, our trade payables turnover days were approximately 59 days, 72 days and 62 days, respectively, while our trade receivables turnover days were approximately 75 days, 78 days and 74 days, respectively. In order to control our credit risk, we normally require our new customers to make the payment in advance or by cash on delivery. We have also purchased insurance to insure against our credit risk.

### FINANCIAL RATIOS *(Note 1)*

	As at/for the year ended 31 December		
	2016	2017	2018
Gross profit margin	27.4%	25.9%	23.0%
Net profit margin	14.1%	9.1%	7.4%
Gearing ratio <i>(Note 2)</i>	30.3%	17.6%	46.3%
Interest coverage	76.3 times	38.2 times	19.5 times
Current ratio	1.6 times	1.9 times	1.5 times
Quick ratio	1.3 times	1.5 times	1.0 time
Return on equity	43.4%	21.8%	31.2%
Return on assets	21.2%	12.5%	14.1%

#### Notes:

1. For formulae of the above financial ratios, please refer to the section headed “Financial Information – Key Financial Ratios”.
2. The gearing ratio is calculated by dividing the total bank borrowings, unsecured loan and obligation under a finance lease with total equity as at the end of the respective year multiplied by 100%.

For the years ended 31 December 2016, 2017 and 2018, our gross profit amounted to approximately HK\$87.2 million, HK\$93.9 million and HK\$96.7 million, respectively, and our gross profit margin of approximately 27.4%, 25.9% and 23.0%, respectively.

Our gross profit margin decreased from approximately 27.4% for the year ended 31 December 2016 to approximately 25.9% for the year ended 31 December 2017 mainly due to decrease in sales volume and sales volume per model for metal spectacle frames and offer of competitive price to capture sales orders from Customer D. Our gross profit margin further decreased to approximately 23.0% for the year ended 31 December 2018 mainly because the decrease in gross profit margin from the sales of spectacle frames.

Our net profit margin decreased from approximately 14.1% for the year ended 31 December 2016 to approximately 9.1% for the year ended 31 December 2017, which was primarily due to (i) the decrease in other gains and losses which changed from a gain position of approximately HK\$5.0 million for the year ended 31 December 2016 to a loss position of approximately HK\$0.9 million for the year ended 31 December 2017; and (ii) the increase in administrative and other operating expenses of approximately HK\$11.0 million. Our net profit margin further decreased to approximately 7.4% for the year ended 31 December 2018 primarily due to increase in salaries and recruitment of additional administrative personnel and the listing expenses recognised during the year.

### LITIGATION AND POTENTIAL CLAIMS

As at the Latest Practicable Date, we were not aware of any material legal proceedings, claims, disputes, arbitration or administrative proceedings pending or threatening against any member of our Group or any of our Directors that could have a material adverse impact on our financial condition or operating results.

### CONTROLLING SHAREHOLDERS

Immediately upon completion of the Capitalisation Issue and the Share Offer, Conquer will hold 75.0% of our Company’s entire issued share capital (without taking into account the Shares which may be allotted and issued pursuant to the exercise of any options which may be granted under the Share



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## SUMMARY

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Option Scheme). Conquer is owned as to as to 2%, 49% and 49% by Mrs. Kwok, Mr. Joe Kwok and Mr. Ken Kwok respectively. On 3 January 2019, in preparation of the Listing, Mr. Kwok, Mrs. Kwok, Mr. Joe Kwok and Mr. Ken Kwok entered into the Concert Parties Confirmatory Deed to acknowledge and confirm, among other things, that they are parties acting in concert in respect of each of the members of our Group since their respective dates of incorporation and shall continue to do so. Accordingly, Mrs. Kwok, Mr. Joe Kwok, Mr. Ken Kwok and Conquer constitute a group of our Controlling Shareholders.

### DIVIDENDS

During the year ended 31 December 2016, dividends of approximately HK\$10.5 million was declared by Kelfred and distributed to the then shareholder and was settled in full by cash. During the year ended 31 December 2017, dividends of approximately HK\$6.2 million and HK\$0.6 million was declared by Kelfred and Central Designs and distributed to the then shareholders, respectively and was settled in full by cash. During the year ended 31 December 2018, dividends of approximately HK\$80.0 million, HK\$2.0 million and HK\$7.6 million was declared by Kelfred, Central Designs and Shenzhen Hua Qing and distributed to the then shareholders. Save for HK\$1.8 million which was settled in full by cash subsequent to the year ended 31 December 2018 and as at the Latest Practicable Date, the remaining dividends of HK\$87.8 million declared during the year ended 31 December 2018 was settled in full by (i) cash of approximately HK\$1.0 million; (ii) offsetting the amount due from a director of approximately HK\$67.5 million primarily attributable to the investment of Shenzhen Production Base and Jiangxi Production Base; and (iii) offsetting amounts due from a related company of approximately HK\$19.3 million.

After completion of the Share Offer, while we currently have no plans to pay dividends to the Shareholders in the foreseeable future, we may distribute dividends by way of cash or by other means that our Directors consider appropriate, after having considered, among other things, our results of operations, financial condition, working capital and capital requirements. The dividend distribution record in the past may not be used as a reference or basis to determine the level of dividends that may be declared or paid by our Board in the future. Please refer to the section headed “Financial Information — Dividends and Distributable Reserves” in this prospectus for further details.

### LISTING EXPENSES

The total estimated listing expenses in connection with the Share Offer are approximately HK\$44.3 million (based on the mid-point of the Offer Price of HK\$1.1 per Offer Share), of which approximately HK\$3.2 million and HK\$7.1 million had been charged to our consolidated statements of profit or loss and other comprehensive income for the years ended 31 December 2017 and 2018 respectively, and approximately HK\$12.7 million are expected to be charged to our consolidated statements of profit or loss and other comprehensive income for the year ending 31 December 2019, respectively. The remaining amount of approximately HK\$21.3 million is expected to be accounted for as a deduction from equity upon Listing.

Our Directors consider that our financial results will be adversely affected by the expenses in relation to the Share Offer for the year ending 31 December 2019, respectively.

### REASONS FOR LISTING AND FUTURE PLANS AND USE OF PROCEEDS

According to the Frost & Sullivan Report, the European retail market in eyewear products is positive and is expected to grow at a CAGR of 4.2% and would reach approximately USD28.6 billion by 2023. As such, our Directors believe that improving our production capacity is a key driver to capture such opportunities for our sustainable business growth which requires considerable financial resources. In order to fulfill capital requirement for our business plan and taking into account the limited financial resources currently available to us which is only sufficient for our current scale of operations, our Group is required to seek other sources of financing. Having considered the recurring interest expenses involved in bank borrowings and the gearing ratio of our Group during the Track Record Period, our Directors are of the view that using equity financing would ensure more stable and healthy expansion of our Group in the long run as it would place less financial burden on us in terms of cash flow. For further details, please refer to the sections headed “Future Plans and Use of Proceeds” in this prospectus.



## SUMMARY

Our Directors estimate that the net proceeds from the Share Offer (after deducting estimated expenses borne by our Company in connection with the Share Offer) will be HK\$93.2 million based on an Offer Price of HK\$1.1 per Offer Share (being the mid-point of the indicative Offer Price range between HK\$1.0 and HK\$1.2 per Offer Share). We intend that the net proceeds will be applied as follows:

	From the Latest Practicable Date to 31 December 2019 (HK\$'000)	For the six months ending 30 June 2020 (HK\$'000)	For the six months ending 31 December 2020 (HK\$'000)	For the six months ending 30 June 2021 (HK\$'000)	Total (HK\$'000)	Approximate Percentage (%)
Strengthen our production capacity	6,814	18,344	20,344	4,826	50,328	54.0
Repay our bank borrowings	14,446	–	–	–	14,446	15.5
Promote corporate image and brand building	2,862	2,613	2,313	2,464	10,252	11.0
Enhance design and development capabilities	3,773	1,805	1,405	1,405	8,388	9.0
Enhance quality assurance capabilities	1,365	939	939	951	4,194	4.5
General working capital	1,398	1,398	1,398	1,398	5,592	6.0
<b>Total</b>	<b>30,658</b>	<b>25,099</b>	<b>26,399</b>	<b>11,044</b>	<b>93,200</b>	<b>100.0</b>

### SHARE OFFER STATISTICS

Market capitalisation at Share Offer <sup>(Note 1)</sup>	:	HK\$500.0 million to HK\$600.0 million
Offer size	:	25.0% of the enlarged issue share capital of our Company
Offer Price per Offer Share	:	HK\$1.0 to HK\$1.2 per Offer Share
Number of Offer Shares	:	125,000,000 Shares
Number of Public Offer Shares	:	12,500,000 Shares (subject to reallocation)
Number of Placing Shares	:	112,500,000 Shares (subject to reallocation)

	Based on the Offer Price of HK\$1.0 per Share (low-end of Offer Price)	Based on the Offer Price of HK\$1.2 per Share (high-end of Offer Price)
Unaudited pro forma adjusted consolidated net tangible asset per Share	HK\$0.36	HK\$0.40

Notes:

- The calculation of market capitalisation of the Shares is based on 500,000,000 Shares in issue immediately after completion of the Capitalisation Issue and the Share Offer.
- Please refer to the notes in the section headed “Unaudited Pro Forma Financial Information — A. Unaudited Pro Forma Adjusted Net Tangible Assets” in Appendix II to this prospectus for further details.

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## SUMMARY

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### RECENT DEVELOPMENTS AND NO MATERIAL ADVERSE CHANGE

Subsequent to the Track Record Period and up to the Latest Practicable Date, we continued to focus on our eyewear manufacturing and exporting business, and our business model remains unchanged. Based on the unaudited financial information of our Group, we continued to record growth in our revenue and gross profit for the four months ended 30 April 2019 as compared to the corresponding period in 2018. Such growth was mainly attributable to the increase in purchase orders placed by our customers.

In July 2018, the United States levied tariffs on USD34.0 billion worth of Chinese goods (which did not include eyewear products according to Frost & Sullivan) and the PRC government responded by implementing retaliatory tariffs on USD34.0 billion list of goods. According to the Frost & Sullivan Report, in December 2018, the United States and the PRC have entered into a 90-day trade truce and agreed to delay an increase in tariffs from 10% to 25% on approximately USD200.0 billion worth of Chinese goods (which was originally set to take effect on 1 January 2019), and agreed not to impose any additional tariffs after 1 January 2019. The US and the PRC government held trade talks between January and February 2019 aiming to reach a consensus. As at the Latest Practicable Date, the trade negotiation between the two countries ended without reaching a deal in May 2019, and thereafter the United States announced to raise punitive tariffs on US\$200 billion of imports from China from 10% to 25% which took effect on 10 May 2019. In response, the PRC government announced that it will impose tariffs ranging from 5% to 25% on US\$60 billion worth of US goods from 1 June 2019.

According to the Frost & Sullivan Report, spectacle frames and sunglasses, which are the major products of the Group, are not subject to the additional 10% and 25% import tariffs announced by the U.S. government in September 2018 and May 2019 respectively. In May 2019, the U.S. government proposed the modification of imposing additional 25% import tariffs on another batch of Chinese products with an annual trade value of approximately US\$300 billion, which may cover spectacle frames and sunglasses and results in potential impact of business operations and financial performance of spectacle frames and sunglasses manufacturers in the PRC. The U.S. government was still seeking comments from the public and the detailed timeline regarding the proposed modification had not been confirmed. In view of the fact that the PRC is a major manufacturer and exporter of spectacle frames and sunglasses in the world with established facilities, supply chain and a number of manufacturers in the PRC serving OEMs and/or ODMs overseas customers with better understanding of customer requirement, it is difficult for such overseas customers to source spectacle frames and sunglasses from alternative locations in a short period of time and the impact of such proposed modification on spectacle frames and sunglasses manufacturers in the PRC is considered minimal in short-term, according to Frost & Sullivan.

Furthermore, we have sold our products to 36 countries and our revenue attributable to customers in the US (based on location of delivery) represented approximately 6.9%, 4.9% and 4.9% of our total revenue for the years ended 31 December 2016, 2017 and 2018. With a wide geographical coverage of our sales, we are less susceptible in the event our sales to the US decreases due to future development of the trade war.

In the event that the US government imposes new tariff on our spectacle frames and sunglasses, our Directors believe that the party who shall bear future tariffs will be subject to negotiation with our customers. Under our existing arrangements with our customers, given we adopt FOB Hong Kong or the PRC as our delivery term, our customers shall bear import tax and tariff incurred, if any.

Our Directors confirm that save for the estimated non-recurring listing expenses as disclosed in the paragraph headed “Listing Expenses” in this section, since 31 December 2018 (being the date to which the latest audited consolidated financial statements of our Group were prepared) and up to the date of this prospectus, (i) there was no material adverse change in the market conditions and the industry and the regulatory environment in which our Group operates that affects our financial or operating position materially and adversely; (ii) there was no material adverse change in the business, revenue structure, trading, profitability, cost structure, financial position and prospects of our Group; and (iii) no event had occurred that would affect the information shown in our Accountants’ Report in Appendix I to this prospectus materially and adversely.

### RISK FACTORS

There are certain risks involved in our operations and in connection with the Share Offer, and many of them are beyond our control. A more comprehensive discussion of the risk factors is set out in the section headed “Risk Factors” in this prospectus. The following are some of the more significant risks that may materially and adversely affect us: (i) we are exposed to concentration risk of reliance on our five largest customers; (ii) we do not have a publicly recognised brand name; (iii) we rely on marketing and sales of our products overseas; and (iv) our financial performance and results may be adversely affected by trade protectionism and global trade policies.

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## DEFINITIONS

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*In this prospectus, unless the context otherwise requires, the following expressions have the following meanings. Certain other terms are explained in the section headed “Glossary of Technical Terms” in this prospectus.*

“affiliate(s)”	any person(s), directly or indirectly, controlling, controlled by or under direct or indirect common control with another person(s)
“Application Form(s)”	<b>WHITE</b> application form(s), <b>YELLOW</b> application form(s) and <b>GREEN</b> application form(s) or, where the context so requires, any of them to be used in connection with the Public Offer
“Articles” or “Articles of Association”	the amended and restated articles of association of our Company, conditionally adopted on 22 June 2019 and to take effect on the Listing Date, as supplemented, amended or otherwise modified from time to time
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Brexit”	the withdrawal of the United Kingdom from the European Union
“Board” or “Board of Directors”	our board of Directors
“Business Day” or “business day”	any day (other than a Saturday, Sunday or public holiday in Hong Kong) on which licensed banks in Hong Kong are generally open for normal banking business
“BVI”	the British Virgin Islands
“CAGR”	compound annual growth rate
“Capitalisation Issue”	the issue of 374,999,899 Shares to be made upon capitalisation of certain sums standing to the credit of the share premium account of our Company as referred to in the paragraph headed “A. Further information about our Company – 4. Written resolutions of our sole Shareholder” in Appendix V to this prospectus
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant

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## DEFINITIONS

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“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
“CCASS Operational Procedures”	the operational procedures of HKSCC in relation to CCASS, containing the practises, procedures and administrative requirements relating to the operations and functions of CCASS, as from time to time in force
“CCASS Participant”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
“Central Designs”	Central Designs (Hong Kong) Limited, a company incorporated in Hong Kong on 3 September 2014 with limited liability and owned as to 50% by each of Fame Investment and Mr. Russell and a non-wholly owned subsidiary of our Company
“China” or the “PRC”	the People’s Republic of China and, except where the context otherwise requires and only for the purpose of this prospectus, references to China or the PRC exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Cinda International” or “Sole Sponsor”	Cinda International Capital Limited, a corporation licenced under the SFO to conduct type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities, being the sole sponsor to the Listing, and one of the Joint Bookrunners, Joint Lead Managers and Underwriters
“close associate(s)”	has the meaning ascribed to it under the Listing Rules
“Co-Lead Managers”	Alpha Financial Group Limited (a licenced corporation under the SFO to conduct type 1 (dealing in securities) regulated activity) and Yuzhou Financial Holdings Limited (a licenced corporation under the SFO to conduct type 1 (dealing in securities), type 4 (advising on securities) and type 9 (asset management) regulated activities)
“Companies (Winding Up and Miscellaneous Provisions) Ordinance”	the Companies (Winding up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Companies Law”	The Companies Law (as revised) of the Cayman Islands as amended, supplemented or otherwise modified from time to time
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Company” or “our Company”	Kelfred Holdings Limited (恒發光學控股有限公司) (formerly known as Kelfred Holdings Limited (恒發控股有限公司)), an exempted company incorporated in the Cayman Islands with limited liability on 20 April 2018

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“Compliance Adviser”	Cinda International
“Compliance Adviser Agreement”	a compliance adviser agreement dated 18 June 2019 entered into between our Company and the Compliance Adviser pursuant to the requirement of Rule 3A.19 of the Listing Rules , further details of which are set out in the paragraph headed “Compliance Adviser” under the section headed “Directors, Senior Management and Employees” in this prospectus
“Concert Parties Confirmatory Deed”	the confirmatory deed dated 3 January 2019, entered into by Mr. Kwok, Mrs. Kwok, Mr. Joe Kwok, and Mr. Ken Kwok to acknowledge and confirm, among other things, that they are parties acting in concert (having the meaning as ascribed thereto in the Takeovers Code) in respect of each of the members of our Group since their respective dates of incorporation and will continue so as of and after the date of the confirmatory deed, details of which are set out in the paragraph headed “History, Reorganisation and Group Structure – Parties acting in concert” in this prospectus
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Conquer”	Conquer Holding Limited (頂鋒控股有限公司), a company incorporated in the BVI on 10 November 2017 with limited liability, which is owned as to 2%, 49% and 49% by Mrs. Kwok, Mr. Joe Kwok and Mr. Ken Kwok, respectively and is our Controlling Shareholder
“Controlling Shareholder(s)”	the group of controlling shareholders having the meaning ascribed to it under the Listing Rules, and, in the context of our Company, means Conquer, Mrs. Kwok, Mr. Joe Kwok and Mr. Ken Kwok
“core connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Countries subject to International Sanctions”	countries regarding which governments such as the United States or Australia, or governmental organisations, such as the European Union or the United Nations, have, through executive order, passing of legislation or other governmental means, implemented measures that impose economic sanctions against such countries or against targeted industry sectors, groups of companies or persons, and/or organisations within such countries
“Customer A”	an international eyewear retail group headquartered in the Netherlands engaged in eyewear retailing, and an Independent Third Party

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## DEFINITIONS

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“Customer B”	an international eyewear retail group headquartered in the United Kingdom engaged in eyewear retailing, and an Independent Third Party
“Customer C”	an apparel group headquartered in the United States engaged in the design, production and distribution of branded apparel, swimwear, footwear and accessories, and an Independent Third Party
“Customer D”	an e-commerce eyewear retailer and an Independent Third Party
“De Rigo”	an owner headquartered in Italy of licensed eyewear brands, and an Independent Third Party
“Deed of Indemnity”	the deed of indemnity dated 22 June 2019 and executed by our Controlling Shareholders in favour of our Company (for itself and as trustee for each of its subsidiaries), particulars of which are set out in the paragraph headed “F. Other Information – 1. Tax and other indemnities” in Appendix V to this prospectus
“Deed of Non-competition”	the deed of non-competition dated 22 June 2019 executed by our Controlling Shareholders in favour of our Company (for itself and as trustee for each of its subsidiaries), particulars of which are set out in the section headed “Relationship with Our Controlling Shareholders – Deed of Non-competition” in this prospectus
“Director(s)” or “our Directors”	the director(s) of our Company
“Euros” or “EUR”	the lawful currency adopted by 19 of the 28 member states of the European Union as at the Latest Practicable Date
“Fame Investment”	Fame Investment Limited (君譽投資有限公司), a company incorporated in the BVI on 10 April 2018 with limited liability, which is a direct wholly-owned subsidiary of our Company
“Frost & Sullivan”	Frost & Sullivan Limited, the independent market research agency engaged by our Company to prepare the Frost & Sullivan Report
“Frost & Sullivan Report”	the industry report prepared by Frost & Sullivan, an independent research and consulting organisation engaged by our Company to prepare the Frost & Sullivan Report

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“GDP”	gross domestic product
“General Rules of CCASS”	the terms and conditions regulating the use of CCASS, as may be amended or modified from time to time and where the context so permits, shall include the CCASS Operational Procedures
“ <b>GREEN</b> Application Form(s)”	the application form(s) to be completed by the <b>HK eIPO White Form</b> Service Provider
“Group”, “our Group”, “we”, “our” or “us”	our Company and our subsidiaries at the relevant time or, where the context refers to any time prior to our Company becoming the holding company of our present subsidiaries, such subsidiaries and the business carried on by such subsidiaries or (as the case may be) our predecessors, and “we”, “our” or “us” shall be construed accordingly
“Head & Shoulders”	Head & Shoulders Securities Limited, a licenced corporation under the SFO to conduct type 1 (dealing in securities), type 2 (dealing in futures contracts) and type 4 (advising on securities) regulated activities
“ <b>HK eIPO White Form</b> ”	the application for Public Offer Shares to be issued in the applicant’s own name by submitting applications online through the designated website at <a href="http://www.hkeipo.hk">www.hkeipo.hk</a>
“ <b>HK eIPO White Form</b> Service Provider”	the <b>HK eIPO White Form</b> service provider designated by our Company, as specified on the designated website at <a href="http://www.hkeipo.hk">www.hkeipo.hk</a>
“HKFRS”	Hong Kong Financial Reporting Standards issued by the HKICPA
“HKICPA”	Hong Kong Institute of Certified Public Accountants
“HKSCC”	Hong Kong Securities Clearing Company Limited, a wholly owned subsidiary of Hong Kong Exchanges and Clearing Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly owned subsidiary of HKSCC
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Branch Share Registrar”	Tricor Investor Services Limited, our Hong Kong branch share registrar and transfer office
“Hong Kong dollar(s)” or “HK\$”	Hong Kong dollar(s) and cent(s), the lawful currency of Hong Kong
“Independent Third Party(ies)”	an individual(s) or a company(ies) who or which is/are independent of and not connected with (within the meaning of the Listing Rules) any Directors, chief executive or substantial shareholders (within the meaning of the Listing Rules), of our Company, our subsidiaries or any of their respective associates

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## DEFINITIONS

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“International Sanctions”	all applicable laws and regulations related to economic sanctions, export controls, trade embargoes and wider prohibitions and restrictions on international trade and investment related activities, including those adopted, administered and enforced by the US Government, the European Union and its member states, United Nations or the Government of Australia
“International Sanctions Legal Advisers”	Hogan Lovells, our legal advisers as to International Sanctions laws in connection with the Listing
“Jiangxi Huaqing”	Jiangxi Huaqing Glasses Co., Limited* (江西華清眼鏡有限公司), a company established in the PRC on 31 May 2016 with limited liability and wholly-owned by Kelfred and an indirect wholly-owned subsidiary of our Company
“Jiangxi Production Base”	the production base, which is located in Jiangxi, PRC operated by our Group for the manufacturing of our eyewear products
“Joint Bookrunners”	Cinda International and Head & Shoulders
“Joint Lead Managers”	Cinda International, Head & Shoulders, I Win Securities Limited (a licenced corporation under the SFO to conduct type 1 (dealing in securities) regulated activity) and Sinomax Securities Limited (a licenced corporation under the SFO to conduct type 1 (dealing in securities), type 4 (advising on securities) and type 9 (asset management) regulated activities)
“Kelfred”	Kelfred Optical Limited (恒發光學有限公司), a company incorporated in Hong Kong on 8 April 1986 with limited liability and wholly-owned by Fame Investment and an indirect wholly-owned subsidiary of our Group
“Latest Practicable Date”	20 June 2019, being the latest practicable date for ascertaining certain information contained in this prospectus prior to the printing of this prospectus
“Legal Counsel”	Alan C.Y. Yung, barrister-at-law in Hong Kong, who is an Independent Third Party
“Listing”	the listing and the commencement of dealings of our Shares on the Main Board
“Listing Date”	the date on which dealings in our Shares first commence on the Main Board, which is expected to be on Tuesday, 16 July 2019



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## DEFINITIONS

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“Listing Division”	the Listing Division of the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Main Board”	the stock market (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with GEM of the Stock Exchange
“Marcolin”	an owner of eyewear products of over 28 licensed brands of apparel and eyewear products, and an Independent Third Party
“Memorandum of Association” or “Memorandum”	the memorandum and restated memorandum of association of our Company adopted on 22 June 2019 and to take effect on the Listing Date as supplemented, amended or otherwise modified from time to time
“Mr. Joe Kwok”	Mr. Kwok Kwan Fai (郭君暉), an executive Director, our Controlling Shareholder, the son of Mr. Kwok and Mrs. Kwok, brother of Mr. Ken Kwok and the spouse of Ms. Lee
“Mr. Ken Kwok”	Mr. Kwok Kwan Yu (郭君宇), an executive Director, our Controlling Shareholder, the son of Mr. Kwok and Mrs. Kwok, brother of Mr. Joe Kwok and the spouse of Ms. Siu
“Mr. Kwok”	Mr. Kwok Mau Kwan (郭茂群), a non-executive Director, the spouse of Mrs. Kwok and the father of Mr. Joe Kwok and Mr. Ken Kwok
“Mrs. Kwok”	Ms. Chan Yin Wah (陳燕華), a non-executive Director, our Controlling Shareholder, the spouse of Mr. Kwok and the mother of Mr. Joe Kwok and Mr. Ken Kwok
“Ms. Lee”	Ms. Lee Man Yee Joanna (李敏儀), the spouse of Mr. Joe Kwok and the human resource and administration officer of our Group
“Mr. Russell”	Mr. Russell Dobney, a director and shareholder of Central Designs
“Ms. Siu”	Ms. Siu Fong Ting Tammy (蕭芳婷), the spouse of Mr. Ken Kwok
“New Building”	the four-storey building to be constructed in our Jiangxi Production Base
“OECD”	Organisation for Economic Co-operation and Development

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## DEFINITIONS

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“OFAC”	the United States Department of Treasury’s Office of Foreign Assets Control
“Offer Price”	the final offer price per Offer Share (excluding brokerage fee of 1.0%, SFC transaction levy of 0.0027% and the Stock Exchange trading fee of 0.005%) which will not be more than HK\$1.2 per Offer Share and is expected to be not less than HK\$1.0 per Offer Share, such price to be determined in the manner as further described in the section headed “Structure and Conditions of the Share Offer” in this prospectus
“Offer Share(s)”	the Placing Shares and the Public Offer Shares
“Optical Farm”	Optical Farm HK Limited (明目光學有限公司), a company incorporated in Hong Kong on 10 December 2015 with limited liability and owned by Fame Investment and an indirect wholly-owned subsidiary of our Company
“Placing”	the conditional placing of the Placing Shares at Offer Price to selected professional, institutional and other investors, as described in the section headed “Structure and Conditions of the Share Offer” in this prospectus
“Placing Shares”	the 112,500,000 Shares being offered by our Company for subscription at the Offer Price under the Placing (subject to re-allocation as described in the section headed “Structure and Conditions of the Share Offer” in this prospectus)
“Placing Underwriters”	the underwriters of the Placing, who are expected to enter into the Placing Underwriting Agreement to underwrite the Placing Shares
“Placing Underwriting Agreement”	the conditional placing underwriting agreement relating to the Placing to be entered into between our Company, our executive Directors, our Controlling Shareholders, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Co-Lead Managers and the Placing Underwriters on or about the Price Determination Date
“PRC Legal Advisers”	China Commercial Law Firm, the legal advisers of our Company as to the PRC law
“Predecessor Companies Ordinance”	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) as in force from time to time before 3 March 2014

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## DEFINITIONS

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“Price Determination Agreement”	the agreement to be entered into by the Joint Bookrunners (for themselves and on behalf of the Underwriters) and our Company on the Price Determination Date to record and fix the Offer Price
“Price Determination Date”	the date, which is expected to be on or around Tuesday, 9 July 2019, on which the Offer Price is to be fixed by agreement between our Company and the Joint Bookrunners (for themselves and on behalf of the Underwriters) for the purpose of the Share Offer
“Public Offer”	the offer to the public in Hong Kong for subscription of the Public Offer Shares at the Offer Price, on and subject to the terms and conditions stated in this prospectus and on the Application Forms
“Public Offer Shares”	the 12,500,000 Shares initially being offered by our Company for subscription at the Offer Price under the Public Offer (subject to re-allocation as described in the section headed “Structure and Conditions of the Share Offer” in this prospectus)
“Public Offer Underwriters”	the underwriters listed in the section headed “Underwriting – Public Offer Underwriters” in this prospectus, being the underwriters of the Public Offer
“Public Offer Underwriting Agreement”	the public offer underwriting agreement dated 28 June 2019 relating to the Public Offer entered into between our Company, our executive Directors, our Controlling Shareholders, Cinda International, the Joint Bookrunners, the Joint Lead Managers, the Co-Lead Managers and the Public Offer Underwriters, details of which are summarised in the section headed “Underwriting” in this prospectus
“Regulation S”	Regulation S under the US Securities Act
“Reorganisation”	the corporate reorganisation of our Group prior to the issue of this prospectus, details of which are set out in the section headed “History, Reorganisation and Group Structure” in this prospectus
“RMB”	Renminbi, the lawful currency of the PRC
“SAFE”	the State Administration for Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)

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## DEFINITIONS

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“Sanctioned Person(s)”	certain person(s) and identity(ies) listed on OFAC’s Specially Designated Nationals and Blocked Persons List or other restricted parties lists maintained by the US, European Union, United Nations or Australia
“SDN List”	the list of Specially Designated Nationals and Blocked Persons maintained by OFAC, which sets forth individuals and entities that are subject to its sanctions and restricted from dealing with US persons
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Share(s)”	ordinary share(s) with nominal value of HK\$0.01 each in the share capital of our Company
“Shareholder(s)”	holder(s) of the Share(s)
“Share Offer”	the Placing and the Public Offer
“Share Option Scheme”	the share option scheme conditionally adopted by our Company on 22 June 2019, the principal terms of which are summarised in the section headed “Statutory and General Information – E. Share Option Scheme” in Appendix V to this prospectus
“Shenzhen Hua Qing”	Hua Qing Glasses (Shenzhen) Company Limited* (華清眼鏡(深圳)有限公司), a company established in the PRC on 6 April 2005 with limited liability and wholly-owned by Kelfred and an indirect wholly-owned subsidiary of our Company
“Shenzhen Production Base”	the production base, which is located in Shenzhen, PRC, operated by our Group for the manufacturing of our eyewear products
“Southern China”	Southern China International Ltd., a company incorporated in Hong Kong on 1 March 1994 with limited liability which was owned as to 50% by each of Mrs. Kwok and Mr. Joe Kwok as at the Latest Practicable Date
“Specsavers”	Specsavers Optical Group Limited, a limited company headquartered in the United Kingdom, part of an international eyewear retail group engaged in eyewear retailing with over 1,500 optical stores in Europe and Australia

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## DEFINITIONS

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“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“substantial shareholder(s)”	has the meaning ascribed to it in the Listing Rules
“subsidiary(ies)”	has the meaning ascribed to it under the Companies Ordinance
“Takeovers Code”	the Hong Kong Codes on Takeovers and Mergers and Share Buy-backs issued by the SFC, as amended, supplemented or otherwise modified from time to time
“Track Record Period”	the period comprising the three financial years ended 31 December 2018
“Underwriters”	collectively, the Public Offer Underwriters and the Placing Underwriters
“Underwriting Agreements”	collectively, the Public Offer Underwriting Agreement and the Placing Underwriting Agreement
“United Kingdom” or “UK”	the United Kingdom of Great Britain and Northern Ireland
“United States” or “US”	the United States of America
“USD” or “US\$”	United States dollar(s), the lawful currency of the United States
“US Securities Act”	the United States Securities Act of 1933, as amended, supplemented or otherwise modified from time to time
“ <b>WHITE</b> Application Form(s)”	the application form(s) for use by the public who require(s) such Public Offer Shares to be issued in the applicant’s or applicants’ own name(s)
“ <b>YELLOW</b> Application Form(s)”	the application form(s) for use by the public who require(s) such Public Offer Shares to be deposited directly into CCASS
“Ying Tan”	Ying Tan Euro-Asia Enterprise Limited* (鷹潭歐亞實業有限公司), a company established in the PRC on 31 May 2016 with limited liability and wholly-owned by Kelfred and an indirect wholly-owned subsidiary of our Company

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## DEFINITIONS

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“%” per cent

“£” pound, the lawful currency of the United Kingdom

All dates and times refer to Hong Kong dates and time.

In this prospectus, the terms “core connected person”, “connected transaction”, “subsidiary”, “substantial shareholder” and “significant shareholder” shall have the meanings given to such terms in the Listing Rules, unless the context otherwise requires.

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

If there is any inconsistency between the Chinese names of entities or enterprises established in China and their English translations, the Chinese names shall prevail. The English translation of company names in Chinese or another language which are marked with “\*” and the Chinese translation of company names in English which are marked with “\*” are for identification purpose only.

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## GLOSSARY OF TECHNICAL TERMS

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*This glossary contains explanation of certain terms used in this prospectus in connection with our Company and our business. The terminologies and their given meanings may not correspond to the standard meanings or usage of such terms adopted in the industry.*

“ERP”	Enterprise Resource Planning, an information technology system integrating internal and external information such as accounting, financial information, human resources management, inventory management and warehouse management to facilitate automation of business operations
“FOB”	free on board, which means that the seller pays for transportation of the goods to the port of shipment as well as loading costs; the buyer pays cost of marine freight transport, insurance, unloading and transportation from the arrival port to the final destination; and the passing of risks occurs when the goods are loaded on board at the port of shipment
“ISO”	acronym for a series of quality management and quality assurance standards published by International Organisation for Standardisation, a non-government organisation based in Geneva, Switzerland, for assessing the quality systems of business organisations
“ISO 9001:2015”	a standard of the ISO9000 series, which specifies the requirements for a quality management system of an organisation to consistently provide products that meet customer requirements and applicable statutory and regulatory standards
“ISO 14001:2015”	a standard of the ISO14000 series, which specifies the environmental management standard of an organisation
“OBM”	acronym for original brand manufacturing, where a manufacturer develops and owns the design of products which are sold under its’s own brand names

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## GLOSSARY OF TECHNICAL TERMS

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“ODM”	acronym for original design manufacturing, where a manufacturer designs and manufactures a product according to customer’s specifications and eventually sold under the brand name of the customer
“OEM”	acronym for original equipment manufacturing, a business whereby a manufacturer solely manufactures the products based on the design and specifications provided by its customers who came up with the design. The products will then be sold under the brand name of its customers with the design
“OHSAS”	an acronym for Occupational Health and Safety Management Systems, which provides a framework for organisations to identify and control its occupational risks and to improve their occupational safety and health performance
“OHSAS 18001: 2007”	the requirements for occupational health and safety management system developed for managing the occupational health and safety risks associated with a business



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## FORWARD-LOOKING STATEMENTS

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*Our Company has included in this prospectus forward-looking statements that are not historical facts, but relate to our Group's intentions, beliefs, expectations or predictions for future event and conditions which may not occur. These forward-looking statements are contained principally in the sections headed "Summary", "Risk Factors", "Industry Overview", "Business", and "Financial Information", which are, by their nature, subject to risks and uncertainties.*

In some cases, you can identify these forward-looking statements by words such as "aim", "anticipate", "believe", "continue", "could", "expect", "intend", "may", "might", "plan", "predict", "seek", "should", "will", "would" or similar expressions or their negatives. These forward-looking statements include, without limitation, statements relating to:

- our Group's business objectives, implementation plans and use of proceeds;
- the amount and nature of, potential for, future development of our Group's business;
- our Group's operation and business prospects;
- our Group's dividend policy;
- the regulatory environment of our Group's industry in general;
- the future development and trends in our Group's industry; and
- risks identified under the section headed "Risk Factors" in this prospectus.

Our Directors confirm that these forward-looking statements are made after due and careful consideration.

These forward-looking statements are subject to risks, uncertainties and assumptions, some of which are beyond our Group's control. In addition, these forward-looking statements reflect our Group's current views with respect to future events and are not a guarantee of future performance.

Additional factors that could cause actual performance or achievements to differ materially include, without limitation, those discussed under the section headed "Risk Factors" in this prospectus.

These forward-looking statements are based on current plans and estimates, and speak only as of the date they are made. Our Company undertakes no obligations to update or revise any forward-looking statement in light of new information, future events or otherwise. Forward-looking statements involve inherent risks and uncertainties and are subject to assumptions, some of which are beyond our Group's control. Our Company cautions you that a number of important factors could cause actual outcomes to differ, or to differ materially, from those expressed in any forward-looking statements.

Due to these risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this prospectus might not occur in the way our Company expects, or at all. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements contained in this prospectus are qualified by reference to these cautionary statements.

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## RISK FACTORS

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*In addition to other information in this prospectus, you should carefully consider the following risk factors before making an investment in the Shares. Our business, operation, financial condition or results of operations could be materially and adversely affected by any of these risks. The trading price of the Shares could decline due to any of these risks and you may lose all or part of your investment. Additional risks and uncertainties not presently known to us or which we currently deem immaterial may arise or become material in the future and may have a material effect on us.*

### RISKS RELATING TO OUR BUSINESS

**We are exposed to concentration risk of reliance on our five largest customers.**

We generally sell our spectacle frames and sunglasses to eyewear retailers, trading companies and licensed brand owners. For the years ended 31 December 2016, 2017 and 2018, the revenue attributable to our five largest customers was approximately HK\$257.7 million, HK\$280.6 million and HK\$324.0 million, respectively, representing approximately 81.1%, 77.3% and 77.0% of our total revenue for the corresponding periods. Although we generally enter into framework sales and purchase agreement with our major customers, we (i) do not set a minimum purchase commitment for our customers to meet; and (ii) we are not their exclusive supplier, therefore purchases by our major customers are typically made by actual purchase orders from time to time with no commitment to purchase our products at current levels or at all in the future. If the price of our products are less competitive than those set by our competitors, our major customers may reduce their purchase amount or stop making purchases from us. If any of our major customers significantly decreases its purchase quantity or stops to place orders with us, and we cannot identify new customers, our business, results of operations and financial condition may be adversely affected.

**We do not have a publicly recognised brand name and rely on our customers' ability to market and sell their products.**

Our Group does not have a publicly recognised brand name. As our ODM and OEM products are normally sold to our overseas customers who are eyewear retailers, trading companies and licensed brand owners which are subsequently sold in the consumer market under our customers' brand names or other designated names, our business growth is susceptible to our customers' perception of our products and our customers' ability to market and sell their products. Furthermore, our customers own the intellectual property rights of (i) our designs of the ODM products, orders of which have been confirmed by them; (ii) their own design of the OEM products, meaning our customers may engage other suppliers to manufacturing those products based on our design and/or their own design. If we fail to maintain or enhance our product recognition and awareness among our current and potential customers, or if we are subject to negative publicity affecting our corporate image, our customers may decide not to source from us.

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## RISK FACTORS

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The styles of eyewear products change from time to time, depending on the fashion trends, fluctuations in consumer preferences and demand, as well as other factors. In order to achieve continued success, our customers must be able to predict, identify and respond promptly to such changes. In addition, the purchasing power of consumers and their spending patterns may also be affected by economic conditions. Hence, if our customers fail to anticipate and respond rapidly and effectively to the fast changing fashion trends and consumers' demand, they may not be able to maintain their sales revenue and as a result, our customers' demand for orders from us may decrease and our operating results may be materially and adversely affected.

### **We rely on marketing and sales of our products overseas.**

For the years ended 31 December 2016, 2017 and 2018, approximately 88.8%, 89.4% and 90.2% of our revenue, respectively are generated from export sales overseas. A number of risks are associated with export sales internationally, including (i) global economic downturn in overseas markets which affect general consumer confidence; (ii) exchange rate fluctuation in foreign currencies (in particular, RMB against USD); (iii) trade barriers, such as tariffs, taxes, trade bans, import control and other restrictions; (iv) increases costs associated with understanding the overseas market trend and maintaining overseas marketing and sales activities; (v) inability to maintain or enforce intellectual property rights in overseas jurisdictions; (vi) exposure to local economic, political, social and labour conditions such as Brexit; and (vii) changes in laws, regulations, trade, monetary or fiscal policy.

In the event that we are unable to manage these risks effectively, our ability to conduct or expand our business abroad would be impaired, which may have a material and adverse impact on our business, financial conditions and results of operations.

### **Our business and financial position may be adversely affected if we are not able to continue servicing the European market effectively or if there is any adverse change in the macro-economic situation or economic downturn in Europe.**

Our revenue attributable to customers in the United Kingdom (based on location of delivery) remained stable and represented approximately 14.2%, 12.7% and 18.5% of our total revenue for the years ended 31 December 2016, 2017 and 2018.

Our group faces potential risks associated with the results of the referendum on the United Kingdom's membership of the European Union, which took place on 23 June 2016, and potential uncertainty following the outcome of the referendum. Brexit could affect the operational and regulatory regime to which our Group is currently subject in the United Kingdom. Brexit could also have an impact on the fiscal, monetary and regulatory landscape in the United Kingdom and could have a material impact on its economy and the future growth of its various industries as well as the same in Europe, including those in which our Group and our United Kingdom and European customers operate. Following the referendum on Brexit, the GBP generally had the trend of depreciation against US dollars during the Track Record Period. Uncertainty surrounding Brexit could also result in fluctuations or a downturn in aspects of the United Kingdom economy which may damage customers, and/or investors' confidence and/or reduce consumer spending in the United Kingdom. Any of these events could have an adverse effect on our Group's business, financial condition, results of operations and prospects.

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## RISK FACTORS

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### **Our financial performance and results of operations may be adversely affected by trade protectionism and global trade policies.**

Our sales of eyewear products may be affected by adverse changes and developments in trade protectionism and global trade policies beyond our control, such as imposition of trade barriers, sanctions and boycotts. If such measures are introduced or imposed by the government of our major markets such as Europe and the United States, it is expected that the international trade and overall export volume and value to those markets will be adversely affected. As such, the sales amount and financial performance of eyewear product manufacturers such as our Group may be adversely affected. Trade protectionism may also bring volatility in the financial markets, which may slowdown economic activities in our major export markets and in turn adversely affecting our financial performance and business strategies in major markets.

In July 2018, the United States levied tariffs on USD34.0 billion worth of Chinese goods (which did not include eyewear products according to Frost & Sullivan) and the PRC government responded by implementing retaliatory tariffs on USD34.0 billion list of goods. According to the Frost & Sullivan Report, in December 2018, the US and the PRC have entered into a 90-day trade truce and agreed to delay an increase in tariffs from 10% to 25% on approximately USD200.0 billion worth of Chinese goods (which was originally set to take effect on 1 January 2019), and agreed not to impose any additional tariffs after 1 January 2019. The US and the PRC government held trade talks between January and February 2019 aiming to reach a consensus. As at the Latest Practicable Date, the trade negotiation between the two countries ended without reaching a deal in May 2019, and thereafter the United States announced to raise punitive tariffs on US\$200 billion of imports from China from 10% to 25% which took effect on 10 May 2019. In response, the PRC government announced that it will impose tariffs ranging from 5% to 25% on US\$60 billion worth of US goods from 1 June 2019. The future trade relationship between the United States and the PRC is uncertain and may have a material adverse effect on global economic conditions, stability of financial markets and international trade. We cannot assure you that the tariffs would not be imposed on our products to be exported to the United States or to our other major markets. If tariffs or other trade restrictions are imposed on our products, we may not be able to freely sell our products to the United States or our other markets and the price of our products will become less competitive after tariff is imposed. As such, our revenue, financial position and prospects will be adversely affected.

### **Unexpected disruptions to our production bases or production process may materially and adversely affect our business operations.**

We operate our manufacturing process at our Shenzhen Production Base and Jiangxi Production Base. Our business operations depend on the smooth operations of our two production bases. Any unexpected disruption to our production bases due to power failure, water supply failure, machine breakdown or malfunction may cause delay or temporary suspension of our production, which may affect our production schedule and make us unable to deliver our products to our customers on time. As a result, we may lose customer confidence, loyalty and harm reputation. In addition, as a result of disruption to our production bases, our Group's production volume and the utilisation rate of its production bases may be affected, which may result in a drop in our gross profit margin and profitability.

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## RISK FACTORS

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In addition, in the event of (i) natural disasters; (ii) political instability, riots, civil unrest and terrorist attacks; (iii) outbreak of infectious diseases; and (iv) other events that are beyond our control, we may incur substantial losses due to loss of revenue from disruption of production, and additional expenditure on repairs or replacement of our damaged equipment and machinery. Further, the production capacity would be negatively affected and we may not deliver our products to our customers on time, which would impair our customers' confidence in us. Our business, financial condition, results of operations would be materially and adversely affected.

**Failure to maintain an effective quality control system on the manufacturing of our products could harm our business.**

Our Group places emphasis on maintaining the quality of our products, and have established a stringent quality control system to ensure our products are quality products which can meet the expectations of our customers. We are subject to a variety of guidelines imposed by our customers relating to production safety, health and environmental conditions, and are required to comply with specific guidelines based on laws and regulations that are applicable in the jurisdictions into which our customers sell their products. There is no assurance that we are able to continue to maintain effective quality control on the manufacturing of our eyewear products in the future, which is determined by various factors, such as the adherence by our employees to its quality control measures and guidelines.

In the event that we fail to implement our quality control system effectively, it could result in defective or substandard products being produced, delays in our product delivery, product replacement, customer complaints, loss of purchase orders and damage to our Group's reputation. Further, if our products could not meet the specifications and requirements requested by our customers, or if our defective or substandard products result in customers suffering losses arising from product liability claims, our Group may be subject to product liability claims and other claims for compensation. Regardless of the outcome of any such claim, we may incur significant legal costs. Product failures or defects, any complaints from customers or negative publicity could lead to a decrease in sales of the relevant and/or other products, which could materially and adversely affect our business, financial condition and results of operations.

**We rely on our subcontractors, who are Independent Third Parties, on our manufacturing process. Any failure of our subcontractors to provide services to us or to meet our requirements may negatively affect our operation.**

During the Track Record Period, we engaged subcontractors in the PRC to manufacture eyewear products and perform certain production steps at their facilities for us from time to time with the consent from our customers to support part of our manufacturing process and increase flexibility in our production. For the years ended 31 December 2016, 2017 and 2018, our subcontracting costs accounted for approximately 42.8%, 38.1% and 35.4% of our cost of sales, respectively. Please refer to the section headed "Business – Suppliers and Subcontractors" in this prospectus for further details.

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## RISK FACTORS

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We do not enter into long term contracts with our subcontractors. If any of our subcontractors fails to provide subcontracting services to us, or if we fail to identify alternative subcontractors in a timely manner, at acceptable prices or with the required production or processing quality, our business may be disrupted and our reputation, financial condition and results of operations may be adversely affected. Furthermore, we are unable to monitor or manage our subcontractors directly. If our subcontractors have not obtained all the licences, permits and approvals necessary for their operations or do not comply with the relevant laws and regulations applicable to them, thereby ceasing to operate their production or processing businesses, or fail to meet our production or delivery schedule or our required quality standards and specifications, our reputation, financial condition and results of operations may be adversely affected.

In addition, there is no assurance that we would be able to maintain such relationship with our subcontractors in the future. There is no assurance that we would be able to timely engage alternative subcontractors with the requisite expertise, experience and capability that meet our production needs and quality requirements, failing which our ability to complete our manufacturing process on time could be impaired, thereby damaging our business reputation and adversely affecting our operations and financial results.

**We generally do not enter into long-term supply agreements with our suppliers.**

We source various raw materials from our suppliers for our eyewear manufacturing business. For the years ended 31 December 2016, 2017 and 2018, the costs of our raw materials amounted to approximately HK\$81.6 million, HK\$96.1 million and HK\$117.8 million, respectively. We rely on the ability and efficiency of suppliers to supply raw materials to us for our further processing. However, we generally do not enter into long-term supply agreements with our suppliers and will negotiate prices with our suppliers on a case-by-case basis. For the master purchase agreements that we enter into with certain of our suppliers, there is no fixed purchase amount and we will place our orders by way of purchase orders.

In the event that the price of our raw materials increases, we may not be able to pass the price increase, in whole or in part, onto our customers effectively or at all. Our inability to pass on or a delay in adjusting our selling price could adversely affect our profitability, financial conditions and results of operations.

If any of our suppliers cannot satisfy our order requirements, we may experience an interruption, reduction or cessation of raw material supplies and will be required to seek alternative suppliers. Furthermore, we cannot assure you that the raw materials supplied to us will not be defective or of a sub-standard. Any delay in the delivery of or defect in raw materials may affect or delay our production schedule, and if we cannot secure alternative suppliers of raw materials of similar quality from other suppliers at prices and terms acceptable to us, we may not be able to deliver our products to our customers on time. As a result, we may lose customer confidence, and our results of operations and financial condition may be materially and adversely affected.



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## RISK FACTORS

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### **We are exposed to the risk of relocation of one of our PRC production bases.**

During the Track Record Period and as at the Latest Practicable Date, we leased our Shenzhen Production Base from Independent Third Parties with the term of the three tenancies expiring in February 2023, December 2022 and September 2019 respectively. We expect to enter into a tenancy agreement in or around July 2019 to renew the tenancy which shall expire in September 2019. There is no guarantee that we will be able to renew the tenancy agreements with related Independent Third Parties in a timely manner or at terms and conditions which are commercially acceptable. Pursuant to the PRC laws and regulations, a tenancy agreement may be deemed as null and void if the lessor has no title to the lease. At the Latest Practicable Date, there were two lessors of our Shenzhen Production Base who cannot provide effective certificates of title to part/all of the leases.

In the event that the tenancy agreements with related Independent Third Parties were not renewed or any disputes arise in relation to the tenancy agreement, our production process and operation may be interrupted and adversely affected as we have to look for new premises for our factory.

### **We are exposed to foreign exchange risks.**

During the Track Record Period, a majority of our revenue are denominated in USD but the costs incurred by our Group in our manufacturing process are mostly denominated in RMB. As at 31 December 2016, 2017 and 2018, approximately 80.1%, 82.4% and 78.3% of our trade receivables are denominated in USD. We are therefore exposed to foreign currency risks as a result of sales that are denominated in a currency other than RMB. Our profit margins may be adversely affected if we are unable to increase the USD denominated selling prices of our products sold to overseas customers to account for the appreciation of RMB against USD. Any exchange rate volatility relating to RMB may affect our value of net assets, profits and dividends. Exchange rate fluctuations between RMB and USD may result in increase or decrease in our reported costs and earnings, which may materially and adversely affect our financial condition and results of operations.

For the years ended 31 December 2016 and 2018, we recorded net foreign exchange gain of approximately HK\$3.2 million and HK\$4.7 million, respectively. For the year ended 31 December 2017, we recorded net foreign exchange loss of approximately HK\$0.7 million. After the expiry of two foreign currency contracts for the year ended 31 December 2016, we have not entered into new derivative financial instruments to manage the foreign exchange risk. As such, any significant movement of RMB against USD and other foreign currencies may significantly impact the revenue recorded in the consolidated financial statements of our Group.

### **We are exposed to credit risks of our customers.**

During the Track Record Period, we recorded trade receivables of HK\$76.2 million, HK\$79.7 million and HK\$91.0 million, respectively, representing approximately 24.0%, 22.0% and 21.6% of our total revenue for the corresponding periods. We generally grant credit terms to our customers ranging from 30 to 120 days. For the year ended 31 December 2017, our Group has made provision of impairment of trade receivables of approximately HK\$0.4 million, which relate to customers in unexpected financial difficulties. For the year ended 31 December 2018, the allowance of doubtful debt recorded for the year ended 31 December 2017 of approximately HK\$0.4 million was written off after our Directors have considered the recoverability of such allowance of doubtful debt. As at 30 April 2019, approximately HK\$84.7 million or 93.0% of our trade receivables as at 31 December 2018 were subsequently settled. If our customers delay in settling the payments or default in making payments, our cashflow level may be affected, and our Group may have to make provision for impairment, write off the receivables and/or incur legal costs to recover the outstanding sum from our customers, which may in turn have a material and adverse impact on our financial condition and results of operations.

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## RISK FACTORS

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**Our cash flow may deteriorate due to potential mismatch in time between receipt of payments from our customers and payments to our suppliers, and we may take a long time to collect our trade receivables.**

While our suppliers generally grant us a credit period of 30 to 90 days, we generally give credit terms to our customers ranging from 30 to 120 days. As a result, there are often time lags between receiving payments from our customers and making payments to our suppliers, resulting in potential cash flow mismatch. The extent of such cash flow mismatch is illustrated by the differences between our trade payables turnover days and trade receivables turnover days. For the years ended 31 December 2016, 2017 and 2018, our trade payables turnover days were approximately 59 days, 72 days and 62 days respectively, while our trade receivables turnover days were approximately 75 days, 78 days and 74 days respectively (further details of which are discussed in the section headed “Financial Information” in this prospectus). Given such disparity between our trade receivables turnover days and trade payables turnover days during the Track Record Period, in the event that we fail to receive payments from our customers on a timely basis, our cash flows and financial performance could be affected adversely and materially.

**We are exposed to risks of obsolete and slow-moving inventory which may adversely impact our cash flow and liquidity.**

Our inventory consists of raw materials, work in progress, finished goods and goods-in-transit. As at 31 December 2016, 2017 and 2018, our balance of inventories amounted to HK\$30.5 million, HK\$44.9 million and HK\$52.2 million, accounting for 17.9%, 21.4%, and 30.1% of our total current assets as at the corresponding dates, respectively. Our inventories turnover days increased from 45 days for the year ended 31 December 2016 to 51 days for the year ended 31 December 2017, and further to 55 days for the year ended 31 December 2018. Please refer to section headed “Financial Information – Discussion of selected items from the consolidated statements of financial position – Inventories” in this prospectus for further details.

Our Group is exposed to increased inventory risks as a result of a variety of factors beyond the Group’s control, such as unexpected change in demand for our Group’s products or the failure of our customers to honour their confirmed orders. Under such circumstances, these inventories may become obsolete and be impaired should we fail to adjust our production or sales plans to consume or sell them.

If we cannot manage our inventory level effectively or if our actual output is significantly more than our expected sales volume, we may not achieve an optimal level of inventory resulting in overstocking of raw materials, work in progress or finished goods, and we may need to either sell off such inventory at a lower price or write off such inventory, which may materially and adversely affect our financial condition and results of operations.



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## RISK FACTORS

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**Our design and development capability and manufacturing of eyewear products may not be successfully responding to the cyclical nature and evolution of the eyewear fashion industry to satisfy customers' demands and preferences.**

Our success depends upon our ability to address and respond to the change of the eyewear market in our product design, planning and manufacturing process, such change of the market being subject to various factors including fashion trends, customers' perception and preference, usage and spending pattern. We consider our product design and development capability as our key to success yet we cannot assure you we will respond in time to the change in customers' preferences. In particular, our business, financial condition, results of operations and prospectus could be adversely affected should we be unable to (i) upkeep the quality of products and expand new product offerings; (ii) satisfy customers' evolving needs and preferences as well as achieving a wider market acceptance of the products designed and manufactured by us; and (iii) maintain our efficient operations.

Furthermore, we cannot assure you that our competitors will not offer products, which are comparable or superior to our products, or adapt more promptly than us to evolving eyewear fashion trends or changing market requirements. If we are unable to develop new products during the market window of those products, and continuously fail in our product launching efforts, our business, prospectus, financial condition and results of operations may be materially and adversely affected.

**Loss of service or any failure to attract our key management personnel may materially and adversely affect our business, financial condition and operations.**

The success of our business has and will continue to depend on the continuing service and dedication of our key management team, in particular, Mr. Joe Kwok (being our executive Director and Chairman) and Mr. Ken Kwok (our executive Director and chief executive officer). The key members of our senior management team have extensive experience in the eyewear industry. For details of our Directors and senior management, please refer to the section headed "Directors, Senior Management and Employees" in this prospectus. For the years ended 31 December 2016, 2017 and 2018, our directors' remuneration were approximately HK\$4.7 million, HK\$4.4 million and HK\$4.0 million, respectively. Although our Group has entered into service contracts or employment contracts (as the case may be) with all our Directors and senior management, if any key management personnel resigns or otherwise terminates the employment contract, we may not be able to recruit new management members of comparable industry experience and knowledge in a timely manner or at all, which may adversely affect our business, financial condition and operations.

**Our Group could be exposed to liability by litigation or legal proceedings which may divert our resources and adversely impact our reputation.**

Our operational and financial stability are subject to any litigation or legal proceedings we face from time to time. During the ordinary course of our business operations, our Group is exposed to liability arising from labour disputes, contractual claims under customer and supplier agreements, intellectual property infringement claims, and other potential third party disputes. In addition, we may encounter additional compliance issues in the course of our operations, which may subject us to administrative proceedings and unfavourable results.

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## RISK FACTORS

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We are also exposed to potential product liability claims in the event that there is any damage caused by defective products. A successful product liability claim against us could require us to pay for substantial damages. Product liability claims against us, whether or not successful, are costly and time-consuming to defend. Though there were no material product recalls in the past, in the event that our products prove to be defective, we cannot assure you that a product liability claim will not be brought against us in the future. Litigation and legal proceedings might adversely affect our brand image, reputation and customer preference for our eyewear products. Our management attention may be diverted in defence of such proceedings from our business and operations. Our financial performance may be materially and adversely affected as substantial legal costs may be incurred. Our Group's reputation may also be affected during the often prolonged process of litigation while the outcome remains uncertain. Furthermore, any settlements or judgments against us may strain our financial resources and adversely affect the profitability of our Group.

**Our insurance coverage may not be sufficient to cover all losses or potential claims from our customers which would affect our business, financial condition and results of operations.**

Our insurance coverage includes general insurance for our Group's fixed assets, inventory and trade debtors. During the Track Record Period, we did not make any material insurance claims, nor did we claim any amounts under the insurance cover. There is no assurance that our current insurance coverage will be able to cover all types of risks involved in our business operations, or be sufficient to cover the full extent of loss or liability for which we may be held liable. As a result, we may have to pay out of our own resources for any uninsured financial or other losses, damages and liabilities. In addition, we cannot guarantee that we can renew our policies or can renew our policies on similar or other acceptable terms. If we suffer from severe unexpected losses or losses that far exceed the policy limits, it could have a material and adverse effect on our business, financial position, results of operations and prospects.

**We may be exposed to risks of infringement in relations to our intellectual property rights and we may be exposed to infringement or misappropriate claims by third parties.**

The success of our business depends upon our ability to protect our intellectual property rights that came into our possession for the production of our ODM and OEM products, as well as our ability to protect our own brand "miga". We cannot assure you that our measures intended to protect the above-mentioned intellectual property rights are sufficient in preventing any possible infringement by third parties, or any possible leakage of confidential information relating to these intellectual property rights by our staff who have access to such information. If our intellectual property rights are infringed by third parties, our business will be materially and adversely affected.

In addition, we cannot assure you that the designs provided by our customers or developed by our staff based on our customers' specifications and the products bearing our customers' trademark(s) will not infringe any third party's intellectual property rights. If our products are proved to have infringed any third party intellectual property rights, we may be required to compensate the owner of the intellectual property right for the damages suffered as a result of the infringement or to pay a fine for such infringement. There is no assurance that we will not face such claims in future. In such event, our business may be materially and adversely affected.

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## RISK FACTORS

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**We are exposed to risks of delivery disruption and damaged or lost products in relation to transportation services.**

We adopt FOB Hong Kong or China as the international trade term. We are subject to delivery disruptions due to various reasons beyond our control, for instance, transportation bottlenecks, typhoon, flood, earthquakes, dense haze and other natural disasters as well as labour strikes which could lead to delayed or lost deliveries. In addition, our products may face the risk of theft or damage due to any poor handling by the logistics companies. If the products are not delivered to customers' designated delivery points on time, or are damaged or lost during delivery, we may have to pay compensation to the relevant parties and could lose certain customers as well as suffer harm to our reputation.

**Our Group's operating results may fluctuate due to seasonality and other factors.**

Our Group's sales are affected by seasonality factor. Generally, demand for our Group's products is higher in December and January and between June and July whereby the revenue of each of these months contribute over 10% of the revenue in the respective year. Our Directors believe that this is due to the peak season for eyewear product sales driven by higher consumer spending during festive seasons and summer seasonal sales in Europe generally. These seasonal consumption patterns may cause our Group's results of operations to fluctuate from period of period, and comparisons of revenue of results of operations across different periods of a given year as an indicator of our Group's performance may not be meaningful and should not be relied upon as indicators of our Group's future performance.

**Our failure to make fully contributions to social insurance fund and housing provident fund under the PRC laws and regulations may incur additional costs, fines or penalties.**

Pursuant to the relevant PRC laws and regulations, employers in the PRC shall make social insurance funds and housing provident funds contributions for their employees. During the Track Record Period, we were not in full compliance with the applicable contribution requirements for our PRC employees. For details of our non-compliance incidents, please refer to the section headed "Business – Legal and Regulatory Compliance" in this prospectus.

Under the applicable PRC laws and regulations, the relevant social insurance and housing provident fund authorities have discretion as to the manner and amount of penalties to be imposed on our Group. Although as advised by our PRC Legal Advisers, the risk for our Group being penalised by the relevant social insurance and housing provident fund for our past non-compliances is remote, there is no assurance that there will not be any employee complaints or claims against us in respect of our failure to make full contributions to the relevant social insurance fund or housing provident fund in the past. There is also no assurance that we will not receive any order or notice from the PRC authorities in relation to the non-compliance incidents. In such case, we may incur additional costs to comply with the laws and regulations and even be subject to fines or penalties arising from above non-compliance, which may have an adverse effect on our business, financial condition and results of operations.

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## RISK FACTORS

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**Our Group may not be able to adequately manage our growth and expansion in the future.**

We have set our Group's future plans in the sections headed "Business – Business Strategies" and "Future Plans and Use of Proceeds" in this prospectus. The successful implementation of these business strategies depends on various factors, including, among other things, market condition, availability of resources, competition and government policy, and some of these factors are beyond the control of our Group and by nature, are subject to uncertainty. Although our Group expects to continue expanding our business and operations, we cannot guarantee to be able to manage our growth effectively in a controlled manner. Any over-expansion could exert pressure on our limited managerial, operational and financial resources and may in turn pose risks to our operational and financial stability. For example, increases in depreciation expenses from the purchase of new equipment and machinery and increases in staff costs may materially and adversely affect our financial condition. It is estimated that, based on the accounting policies adopted by our Group and to the best of our Directors' knowledge and belief, the estimated depreciation expenses for our New Building would increase from approximately HK\$0.8 million for the year ending 31 December 2020 to approximately HK\$4.1 million for the year ending 31 December 2023. Failure to manage our expansion plans properly may result in increased operational costs and lower profits than anticipated.

**Failure to obtain or renew any or all of the licenses, certificates and permits our business requires could adversely affect our business, financial condition and results of operations.**

We are required to maintain various licenses, certificates and permits for our operations, in particular, our production bases. We are also required to comply with applicable standards in relation to our production processes, in particular, our production facilities are subject to regular inspections by the regulatory authorities for compliance with the relevant laws and regulations in the PRC. If we fail to pass these inspections, or otherwise obtain or renew our licenses, certificates and permits, it could lead to temporary or permanent suspension of some or all of our production activities which would adversely affect our business, financial condition and results of operations.

Furthermore, we intend to construct the New Building in our Jiangxi Production Base. After the construction of the New Building and the installation of the machinery and equipment, our Group is required to obtain various licenses, certificates and permits for our operation and to comply with applicable standards in relation to our production process and pass regulatory inspections. If we fail to pass these inspections, or otherwise obtain our licenses, certificates and permits, it could lead to temporary or permanent suspension of some or all of our production activities in the New Building or the Jiangxi Production Base.

**Our Group plans to increase the level of automation in its production process by acquiring and installing additional equipment and machineries, and such expansion may result in increase in depreciation expenses.**

Our Group plans to increase the level of automation in its production process by purchasing additional equipment and machineries. Our Group intends to apply approximately 54.0% of the net proceeds from the Listing to strengthen its production capacity. Please refer to the section headed "Future Plans and Use of Proceeds" in this prospectus for details as to the types of machineries and equipment to be purchased. Our Group's depreciation expense may increase due to the increase of such equipment and machineries, which may in turn materially and adversely affect our Group's business, financial condition and results of operations.

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## RISK FACTORS

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### RISKS RELATING TO OUR INDUSTRY

**We are subject to environmental, occupational and safety laws, regulations and government policies, and compliance with these laws, regulations and policies may be costly.**

Our business operations are subject to various environmental, occupational and safety laws, regulations and government policies set out by the PRC Government. Please refer to the section headed “Regulatory Overview – PRC Laws and Regulations” in this prospectus for further details.

During the Track Record Period, save as disclosed in the section headed “Business – Legal and Regulatory Compliance” in the prospectus, our Group has not been subject to any material claim for breach of any environmental, occupational and safety laws, regulations and government policies promulgated by the PRC Government. Should our Group fail to satisfy the abovementioned laws, regulations and government policies, we may be required to take remedial actions which may adversely impact our operations.

Further, there is no assurance that the PRC Government or the relevant authorities in the PRC will not impose additional or more stringent laws, regulations or government policies in the future, which may subject us to more onerous duties and obligations. We may also incur higher financial or other resources to amend our production process, introduce new monitoring systems and purchase new equipment in order to ensure compliance, which may have an adverse impact on our results of operations and financial condition.

**Labour shortages, increase in labour cost or other factors affecting labour supply may materially and adversely affect our business operations.**

Our business operates on a labour-intensive basis, and our operations is reliant on the experience and skills of our PRC employees. Our Group had 1,068 employees as at the Latest Practicable Date and for the years ended 31 December 2016, 2017 and 2018, our employee benefit expenses excluding director’s emoluments including salary, bonuses, allowances and retirement benefit schemes contributions amounted to approximately HK\$54.9 million, HK\$72.9 million and HK\$92.1 million, respectively.

There is no assurance that we can secure sufficient number of workers to meet our production needs, or that our labour costs will not increase. Should we fail to recruit staff in a timely and cost-efficient manner and/or retain our existing staff, we may not be able to achieve our production target, accommodate any sudden increase of purchase orders from our customers or carry out our expansion plans.

Labour costs have generally increased in the PRC in the recent years. Labour costs are affected by a number of factors such as demand and supply of labour and inflation. We cannot assure you that we can retain and attract sufficient qualified employees on commercially reasonable terms, or at all. We may need to increase our wage for the purpose of retaining our existing workers or recruit new workers. An increase in our labour costs would increase our operating costs. In the event that we may not be able to pass on all or part of the increase in our labour costs to our customers, our business, financial condition and results of operations may be materially and adversely affected.

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## RISK FACTORS

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Further, any labour dispute or strikes that take place in our Shenzhen Production Base and Jiangxi Production Base may disrupt our operations. During the Track Record Period, we did not experience any labour disputes or strikes. However, we cannot assure that the above mentioned events will not occur in the future or we will be able to resolve them shortly when any of them occurs. If a labour dispute or a strike takes place and we fail to deal with it in a short period of time, our operations could be materially and adversely affected, which would impact our business, financial condition and results of operations negatively.

### **RISKS RELATING TO THE PRC**

#### **Changes in the PRC's economic, political and social conditions, as well as government policies, could affect our business and prospects.**

Our manufacturing activities are conducted in the PRC. Therefore, our business, results of operations, financial condition and prospect are, to a significant extent, subject to the economic, political and social conditions and government policies in the PRC. The economy of the PRC differs from the economies of the most developed countries in many aspects, including but not limited to (i) the degree of the PRC government's involvement; (ii) the growth rate and degree of development; (iii) control of foreign exchange; and (iv) allocation of resources.

The PRC's economy used to be a planned economy, and a substantial portion of productive assets in the PRC are still owned by the PRC government. The PRC government also exercises substantial control over the PRC's economic growth by allocating resources, setting monetary policies and providing preferential treatment to particular industries or companies. While the PRC government has implemented economic reform measures to introduce market forces and to establish sound corporate governance in business enterprises, such economic reform measures may be adjusted, modified or applied inconsistently from industry to industry, or across different regions of the country. Hence, we cannot assure you that we may be able to benefit from all, or any, of the measures which are under constant adjustments.

Furthermore, the economic conditions of the PRC could also be affected by its trade relations with other countries. For example, the recent Sino-U.S. trade war may result in deterioration of the PRC economic environment, or that our eyewear products are subject to tariffs imposed by the US government in future. If we are unable to pass the increased costs to our customers or the demand for such products from our customers in US decreases, it may have an adverse impact on our business, financial condition and results of operations.

#### **Extensive government regulation of the manufacturing industry may limit our flexibility to respond to market conditions, competition or changes in our cost structure.**

The manufacturing industry in the PRC is subject to various laws and regulations. Any change in the scope or application of these laws, regulations or approvals, however, may limit our ability to conduct our businesses, increase our costs, or increase competition and could have a material adverse effect on our financial results. In addition, complying with such laws and regulations may give rise to unexpected compliance costs that could have an effect on our financial condition and results of operations. Our failure to comply with such laws and regulations could also result in fines, penalties or lawsuits.



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## RISK FACTORS

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Furthermore, precedents on the interpretation, implementation and enforcement of the PRC laws and regulations are limited. As such, the outcome of dispute resolutions may not be consistent or predictable as in the other more developed jurisdictions and it may be difficult to obtain swift or equitable enforcement under the PRC laws, or to obtain enforcement of judgment by a court of another jurisdiction.

**The enforcement of the PRC labour contract law, social insurance law and other labour related regulations may materially affect our business, financial condition and results of operations.**

Pursuant to the PRC Labour Contract Law, effective on 1 January 2008 and amended on 28 December 2012, and its implementation rules that became effective on 18 September 2008, employers are subject to various requirements in terms of contract signing, minimum wages, payment of remuneration, overtime working hours limitations, determination of employees' probation period and unilateral termination of labour contracts. In the event that we decide to terminate the employment of some of our employees or otherwise change our employment or labour practices, the PRC Labour Contract Law and its implementation rules may limit our ability to effect those changes in a desirable or cost-effective manner, which could adversely affect our business and results of operations.

On 28 October 2010, the Standing Committee of the National People's Congress promulgated the PRC Social Insurance Law, which became effective on 1 July 2011 and amended on 29 December 2018. According to the PRC Social Insurance Law, employees must participate in pension insurance, work-related injury insurance, medical insurance, unemployment insurance and maternity insurance and the employers must, together with their employees or separately, pay the social insurance premiums for such employees.

As the interpretation and implementation of the PRC Labour Contract Law, the Social Insurance Law and other labour related regulations (the "**labour-related laws and regulations**") are still evolving, we cannot assure you that our employment practice do not and will not violate labour-related laws and regulations in PRC, which may subject us to labour disputes or government investigations. If we are deemed to have violated relevant labour-related laws and regulations, we could be required to provide additional compensation to our employees and our business, financial condition and results of operations could be materially and adversely affected.

**Inflation in the PRC in general may increase our cost of raw materials and labour costs.**

Our manufacturing activities are conducted in China and we purchase our raw materials mainly from the PRC. While the PRC economy has experienced rapid growth, such growth has been accompanied by periods of high inflation. In order to control inflation in the past, the PRC government has imposed controls on bank credits, limits on loans for fixed assets and restrictions on state bank lending. Nevertheless, the effects of the stimulus measures implemented by the PRC government since the global economic crisis in 2008 may have contributed to the occurrence of, and continue increase in, inflation in the PRC. If such inflation is allowed to proceed without mitigating measures by the PRC government, our operational costs will likely increase, and our profitability may be materially reduced, as there is no assurance that we will be able to pass any cost increases onto our customers. If the PRC government implements new measures to control inflation, these measures may lead to a slowing of economic growth.

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## RISK FACTORS

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### **It may be difficult to effect service of process or to enforce foreign judgments against our Group.**

Part of our businesses, assets and operations are located in the PRC and our PRC subsidiaries are governed by PRC laws, rules and regulations. Therefore, investors may encounter difficulties in effecting service of process from outside the PRC upon us. Moreover, it is understood that the enforcement of foreign judgments in the PRC is subject to uncertainties. A judgement of a court from a foreign jurisdiction may be reciprocally recognised or enforced if the jurisdiction has a treaty with the PRC. However, the PRC does not have treaties for the reciprocal recognition and enforcement of court judgments with the US, the U.K. and many other countries. As a result, recognition and enforcement in the PRC or Hong Kong of a court judgement obtained in the United States and any of the other jurisdictions mentioned above may be difficult or impossible.

### **PRC government's control of foreign currency may limit our foreign exchange transactions, including dividend payments to our Company's shareholders in foreign currency.**

RMB generally cannot be freely converted into any foreign currencies. Under the existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and trade and service-related foreign exchange transactions, can be made in foreign currencies without prior approval from the SAFE, subject to certain procedures. Hence, our PRC subsidiaries are able to pay dividends in foreign currencies to our Company without prior approval from the SAFE by satisfying certain procedural requirements. However, there is no assurance that the foreign exchange policies regarding payment of dividends in foreign currencies will continue.

Moreover, foreign exchange transactions under the capital account, including principal payments in respect of foreign currency-denominated obligations, continue to be subject to limitations and require prior approval of the SAFE. The PRC government may further implement rules and regulations in the future, which could restrict the use of foreign currency under current account and capital account in certain circumstances. These restrictions could affect our ability to obtain foreign currency through debt financing, or to obtain foreign exchange needed for our capital expenditure, and could materially and adversely affect our business, financial condition and results of operations.

### **Payment of dividends is subject to restrictions under the PRC law.**

As our Company is a holding company, we rely on dividend from our subsidiaries in the PRC for cash requirements, including service of any debts our Group may incur. Under the current PRC law, dividend may be paid only out of our PRC subsidiaries' accumulated after-tax profits, if any, determined in accordance with PRC accounting standards and regulations. Moreover, our PRC subsidiaries are required to set aside a certain amount of its after-tax profits each year, if any, to fund certain statutory reserves. These reserves are not distributable as cash dividends. In addition, in the future, if our PRC subsidiaries incur debt on its own behalf, the instruments governing the debt may impose restrictions on its ability to pay dividends or other payments to our Company. The inability of our PRC subsidiaries to distribute dividends or other payments to our Company could significantly affect the amount of capital available to supply the development and growth of our business.



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## RISK FACTORS

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### RISK RELATING TO INTERNATIONAL SANCTIONS

**We could be adversely affected as a result of any sales we make to certain countries that are, or become subject to, sanctions administered by the United States, the European Union, the United Nations, Australia and other relevant sanctions authorities.**

The United States and other jurisdictions or organisations, including the European Union, the United Nations and Australia, have, through executive order, passing of legislation or other governmental means, implemented measures that impose economic sanctions against such countries or against targeted industry sectors, groups of companies or persons, and/or organisations within such countries.

During the Track Record Period, we made sales of our eyewear products, directly and indirectly, to certain customers located in Russia and Tunisia. We also made deliveries of our eyewear products to Russia with respect to sales to certain customers located in countries/regions not being subject to International Sanctions during the Track Record Period. Russia, in particular, has been subject to a variety of additional sanctions measures since its actions in Crimea were deemed to be illegal by the governments of many Western countries and various governmental organizations, including additional sanctions measures adopted by the United States in each of 2018 and 2019. The United States government continues to consider implementing increased sanctions targeting Russia. Further, Russia has annexed the region of Crimea, which is located in between Russia and Ukraine, and considers it to be a part of the Russian Federation. The Crimea region is subject to comprehensive international sanctions. The revenue relating to sales and deliveries to Russia and Tunisia in aggregate was approximately HK\$5.5 million, HK\$5.5 million and HK\$3.6 million, respectively, representing approximately 1.7%, 1.5% and 0.8% of our total revenue for the years ended 31 December 2016, 2017 and 2018, respectively.

While we have implemented internal control measures to minimise our risk exposure to International Sanctions, sanctions laws and regulations are constantly evolving, and new persons and entities are regularly added to the list of Sanctioned Persons. Further, new requirements or restrictions could come into effect which might increase the scrutiny on our business or result in one or more of our business activities being deemed to have violated sanctions. Our business and reputation could be adversely affected if the authorities of the United States, the European Union, the United Nations, Australia or any other jurisdictions were to determine that any of our future activities constitutes a violation of the sanctions they impose or provides a basis for a sanctions designation of our Group.

### RISKS RELATING TO THE SHARE OFFER

#### **Termination of the Public Offer Underwriting Agreement.**

Prospective investors should note that the Joint Bookrunners (for themselves and on behalf of the Public Offer Underwriters) are entitled to terminate the obligations of the Public Offer Underwriters under the Public Offer Underwriting Agreement by giving written notice to us upon the occurrence of any of the events set out in the section headed “Underwriting – Underwriting Arrangements and Expenses – The Public Offer – Grounds for Termination” in this prospectus at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date. Such event may include, without limitation, acts of government or orders of any courts, labour disputes, strikes, calamity, crisis, lock-outs, fire, explosion, flooding, civil commotion, acts of war, acts of God, acts of terrorism (whether or not responsibility has been claimed), declaration of a national or international emergency, riots, public disorder, economic sanctions, outbreaks of diseases or epidemics.

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## RISK FACTORS

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**There has been no prior public market for our Shares, and there may be limited liquidity in the Shares and volatility in the price of the Shares on the Main Board.**

The Shares have not been traded in any open market before completion of the Listing. The Offer Price is the result of negotiations between our Company and the Joint Bookrunners (for themselves and on behalf of the Underwriters), and may not serve as an indicator of the price of the Shares traded on the Main Board in the future. There is no assurance that an active trading market of the Shares will develop upon Listing or if it does develop, that it may be sustained for any period of time after Listing. Upon Listing, the transaction volume and market price of the Shares may be affected by various factors, including the revenue, profitability and cash flow of our Company, change of key personnel of our Company, announcements of new investments, strategic alliance and/or acquisition, transaction volume of the Shares, development of the Main Board, general economic conditions, fluctuations in market prices of our products, changes in securities analysts' analysis of our financial performance, concentration of shareholding in the hands of small number of investors, involvement in litigation, and other factors. All such factors may result in significant fluctuations in the market price and/or transaction volume of the Shares. There is no assurance that such changes will not occur.

**Additional equity fund raising may lead to dilution of shareholders' interests and decrease in market price of the Shares.**

We may find opportunities to grow through acquisitions that cannot currently be anticipated. Secondary issue(s) of securities after the Share Offer may be necessary to raise the required capital to capture these growth opportunities. If additional funds are raised by issuing new equity securities in the future to new and/or existing Shareholders after the Listing, such new Shares may be priced at a discount to the then prevailing market price. If existing Shareholders are not offered an opportunity to participate, their shareholding interest in our Company will be diluted.

Also, if we fail to utilise the additional funds to generate the expected earnings, this could adversely affect our financial results and in turn exerts pressure to the market price of the Shares. Even if additional funds are raised by means of debt financing, any additional debt financing may, apart from increasing interest expense and gearing, contain restrictive covenants with respect to dividends, future fund raising exercises and other financial and operational matters.

**There may be dilution because of the issuance of Shares pursuant to the options which may be granted under the Share Option Scheme.**

We may grant share options to eligible participants under the Share Option Scheme, who may be employees, senior management and Directors. The exercise of share options under the Share Option Scheme will result in an increase in the number of Shares, and may result in a dilution to the percentage of ownership of the shareholders of our Company, the earnings per Share and net asset value per Share depending on the exercise price. Further details of the Share Option Scheme are summarised in the section headed "Statutory and General Information – E. Share Option Scheme" in Appendix V to this prospectus.

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## RISK FACTORS

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### **Historical dividends are not indicative of our Group future's dividends.**

For the years ended 31 December 2016, 2017 and 2018, our Group declared dividends of approximately HK\$10.5 million, HK\$6.8 million and HK\$89.6 million, respectively. The value of dividends declared and paid in previous years should not be relied on by potential investors as a guide to the future dividend policy of our Group or as a reference or basis to determine the amount of dividends payable in the future. There is no assurance that dividends will be declared or paid in the future, at a similar level or at all. Our future declarations of dividends will be subject to, among other things, the discretion of our Board. Any distributable profits that are not distributed in any given year may be retained and available for distribution in subsequent years. To the extent profits are distributed as dividends, such portion of profits will not be available to be reinvested in our operations. In any event, there can be no assurance that we will be able to declare or distribute any dividend.

### **Future sale of the Shares or major divestment of the Shares by our Controlling Shareholders or substantial shareholders of our Company may cause Share price to fall.**

The sale of a significant number of Shares by our Controlling Shareholders or substantial shareholders in the public market after the Listing, or the perception that such sale may occur, could adversely affect the market price of the Shares. Except as otherwise described in the section headed “Underwriting” in this prospectus and the restrictions set out by the Listing Rules, there are no restrictions imposed on our Controlling Shareholders or substantial shareholders of our Company to dispose of their shareholdings. Any major disposal of Shares by any of our Controlling Shareholders or substantial shareholders of our Company may cause the market price of the Shares to fall. In addition, these disposals may make it more difficult for our Group to issue new Shares in the future at a time and price that the Directors deem appropriate, thereby limiting our ability to raise capital.

### **Investors in our Shares may face difficulties in protecting their interests under Cayman Islands law, which may provide remedies to minority shareholders that may differ from the remedies available under the laws of Hong Kong or other jurisdictions.**

Our corporate affairs are governed by, among other things, the Articles of Association, the Companies Law and the common law of the Cayman Islands. The rights of Shareholders to take action against our directors, actions by minority shareholders, and the fiduciary responsibilities of our directors to us under Cayman Islands law are to a large extent governed by the common law of the Cayman Islands and the Articles of Association. The laws of the Cayman Islands relating to the protection of the interests of minority shareholders may differ in some respects from those in Hong Kong and other jurisdictions. These differences mean that the remedies available to our minority Shareholders may be different from those that minority shareholders would have under the laws of Hong Kong or other jurisdictions. Please refer to the section headed “Summary of the Constitution of our Company and Cayman Islands Company Law” in Appendix IV to this prospectus for further details.

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## RISK FACTORS

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

This prospectus contains certain statements that are “forward-looking” and indicated by the use of forward-looking terminology such as “believe”, “intend”, “anticipate”, “estimate”, “plan”, “potential”, “will”, “would”, “may”, “should”, “expect”, “seek” or similar terms. Prospective investors are cautioned that reliance on any forward-looking statement involves risk and uncertainties and that, even if the Directors believe the assumptions related to those forward-looking statements are reasonable, any or all of those assumptions could prove to be inaccurate and as a result, the forward-looking statements based on those assumptions could also be incorrect. The risks and uncertainties in this regard consist of those identified in the risk factors discussed above. In light of these and other risks and uncertainties, the enclosure of forward-looking statements in this prospectus should not be regarded as representations by our Company that the plans and objectives will be achieved, and investors should not place undue reliance on such statements. Our Company does not undertake any obligation to update publicly or release any revisions of any forward-looking statements, whether as a result of new information, future events, or otherwise. Please refer to the section headed “Forward-looking Statements” in this prospectus for further details.

**Investors should not rely on any information contained in press articles or other media regarding our Group or the Share Offer.**

We wish to emphasise to prospective investors that we do not accept any responsibility for the accuracy or completeness of the information contained in any press articles or other media coverage regarding us or the Share Offer, and such information that was not sourced from or authorised by us. We make no representation to the appropriateness, accuracy, completeness or reliability of any information contained in any press articles or other media coverage about our business or financial projections, share valuation or other information. Accordingly, prospective investors should not rely on any such information and should rely only on information included in this prospectus in making any decision as to whether to invest in our Shares.

**Certain facts and statistics in this prospectus may not be reliable and accurate.**

The facts and statistics disclosed in this prospectus (particularly those set out in the section headed “Industry Overview” in this prospectus) relating to Hong Kong, its economy, regulatory framework and the eyewear industry have been derived from various publications which we believe to be reliable. However, we cannot guarantee the quality or reliability of such source materials. Whilst we have taken reasonable care in the production of such information, they have not been independently verified by us, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers or the Underwriters, any of our or their respective directors or any other parties involved in the Share Offer. Therefore, all the aforesaid parties, including but not limited to our Company and the Sole Sponsor, make no representation as to the accuracy of such facts and statistics disclosed in this prospectus. Due to the possibly flawed or ineffective data collection methods or discrepancies between published information and market practice, the facts and statistics disclosed in this prospectus may be inaccurate or may not fairly reflect the actual situations or market conditions. Furthermore, we cannot assure that such information is stated or compiled on the same basis or with the same degree of accuracy as may be the case elsewhere. Accordingly, prospective investors should not rely on any such information and should rely only on information included in this prospectus in making any decision as to whether to invest in our Shares.

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## INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

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### DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus, for which our Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) and the Listing Rules for the purposes of giving information with regard to our Company. Our Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief:

- (a) the information contained in this prospectus is accurate and complete in all material respects and is not misleading or deceptive;
- (b) there are no other matters the omission of which would make any statement herein or this prospectus misleading; and
- (c) all opinions expressed in this prospectus have been arrived at after due and careful consideration and are founded on bases and assumptions that are considered fair and reasonable.

### INFORMATION ON THE SHARE OFFER

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

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## **INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER**

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### **OFFER SHARES ARE FULLY UNDERWRITTEN**

This prospectus is published solely in connection with the Share Offer. The listing of the Shares on the Main Board is sponsored by the Sole Sponsor and managed by the Joint Bookrunners. The Public Offer Shares will be fully underwritten by the Public Offer Underwriters. The Placing Shares will be fully underwritten by the Placing Underwriters pursuant to the Placing Underwriting Agreement. The Offer Price will be determined by agreement between our Company and the Joint Bookrunners (for themselves and on behalf of the Underwriters) on the Price Determination Date. For further details on the Underwriters and the underwriting arrangements, please refer to the section headed “Underwriting” in this prospectus.

If, for any reason, the Offer Price is not agreed between our Company and the Joint Bookrunners (for themselves and on behalf of the Underwriters) by that date or such later date, the Share Offer will not become unconditional and will lapse.

### **OFFER PRICE**

The Offer Shares are being offered at the Offer Price which will be determined in Hong Kong dollars by our Company and the Joint Bookrunners (for themselves and on behalf of the Underwriters) on the Price Determination Date. The Offer Price will not be more than HK\$1.2 per Offer Share and is expected to not be less than HK\$1.0 per Offer Share. Subscribers, must pay, on application, the maximum Offer Price of HK\$1.2 per Offer Share plus brokerage of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%, amounting to a total of HK\$4,848.37 for one (1) board lot of 4,000 Offer Shares. For further details on the Offer Price, please refer to the section headed “Structure and Conditions of the Share Offer” in this prospectus.

### **RESTRICTIONS ON OFFER AND SALE OF THE OFFER SHARES**

No action has been taken to permit any offering of the Offer Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute, any offer or invitation nor is it taken as an invitation or solicitation of offers in any jurisdiction or under any circumstances where such offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation.

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

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

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## **INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER**

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Prospective investors for the Offer Shares should consult their financial advisers and take legal advice as appropriate, to inform themselves of, and to observe, all applicable laws and regulations of any relevant jurisdiction.

### **PROCEDURE FOR APPLICATION FOR THE PUBLIC OFFER SHARES**

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

### **STRUCTURE AND CONDITIONS OF THE SHARE OFFER**

For further details on the structure and conditions of the Share Offer, please refer to the section headed “Structure and Conditions of the Share Offer” in this prospectus.

### **APPLICATION FOR LISTING ON THE MAIN BOARD**

Application has been made to the Listing Division of the Stock Exchange for the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Share Offer and the Capitalisation Issue on the Main Board and the Shares which may be allotted and issued pursuant to the exercise of any options which may be granted under the Share Option Scheme. No part of the share or loan capital of our Company is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or is proposed to be sought in the near future.

Pursuant to Rule 8.08(1) of the Listing Rules, at least 25.0% of the total number of issued Shares must at all times be held by the public. A total of 125,000,000 Offer Shares, representing 25.0% of the enlarged issued Shares immediately following completion of the Share Offer and the Capitalisation Issue (without taking into account of any Shares which may be allotted and issued pursuant to the exercise of any options which may be granted under the Share Option Scheme) will be made available under the Share Offer.

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

Save as disclosed herein, no part of the Shares or loan capital of our Company is listed, traded or dealt in on any other stock exchange. At present, we are not seeking or proposing to seek a listing of, or permission to deal in, any part of the Shares or loan capital on any other stock exchange.



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## INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

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### SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the Stock Exchange granting the listing of, and permission to deal in, our Shares on the Main Board and the compliance with the stock admission requirements of HKSCC, our Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or any other date as determined by HKSCC.

Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day. If you are unsure about the details of CCASS settlement arrangements and how such arrangements will affect your rights and interests, you should seek advice from your stockbrokers or other professional advisers.

All necessary arrangements have been made for our Shares to be admitted into CCASS. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

### PROFESSIONAL TAX ADVICE RECOMMENDED

If you are unsure about the taxation implications of the subscription for, purchase, holding or disposal of, dealing in, or the exercise of any rights in relation to the Shares, you should consult your professional adviser. It is emphasised that none of our Company, the Sole Sponsor, the Joint Lead Managers, the Joint Bookrunners, the Underwriters, any of their respective directors, agents or advisers or any other person involved in the Share Offer accepts responsibility for any tax effects on or liabilities of any person resulting from the subscription for, purchase, holding or disposal of, dealing in, or the exercise of any rights in relation to the Shares.

### REGISTER OF MEMBERS AND STAMP DUTY

Our Company's principal register of members will be maintained by our principal share registrar, Estera Trust (Cayman) Limited, in the Cayman Islands and our Company's Hong Kong branch register of members will be maintained by our Hong Kong Branch Share Registrar, Tricor Investor Services Limited, in Hong Kong.

The Shares are freely transferable. Only securities registered on the branch register of members of our Company kept in Hong Kong may be traded on the Main Board unless the Stock Exchange otherwise agrees.

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



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## **INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER**

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

### **COMMENCEMENT OF DEALINGS IN THE SHARES**

Dealings in the Shares on the Stock Exchange are expected to commence at 9:00 a.m. (Hong Kong time) on or around Tuesday, 16 July 2019. Shares will be traded in board lots of 4,000 Shares each. The stock code for our Shares is 1134. Our Company will not issue any temporary documents of title.

### **PROCEDURE FOR APPLICATION FOR PUBLIC OFFER SHARES**

The procedure for applying for Public Offer Shares is set out in the section headed "How to Apply for Public Offer Shares" in this prospectus and on the relevant Application Forms.

### **EXCHANGE RATES**

Solely for your convenience, this prospectus contains translations of certain currency amounts into Hong Kong dollars at specified rates. No representation is made that the currency amounts could actually be converted into any Hong Kong dollar amounts at the rates indicated or at all. Unless otherwise stated or in respect of transactions that have occurred at historical exchange rates, (i) all translations of RMB into Hong Kong dollars were made at the rate of RMB0.88 to HK\$1.00, which was the central parity exchange rate prevailing on the Latest Practicable Date set by the People's Bank of China for foreign exchange transactions; and (ii) all translations of GBP into Hong Kong dollars were made at the rate of £1.00 to HK\$9.9262, which was the exchange rate prevailing on the Latest Practicable Date according to the Bank of England.

### **LANGUAGE**

If there is any inconsistency between this prospectus and the Chinese translation of this prospectus, this prospectus shall prevail. Names of any laws and regulations, governmental authorities, institutions, natural persons or other entities which have been translated into English and included in this prospectus and for which no official English translation exists are unofficial translations for your reference only.

### **ROUNDING**

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

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## DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

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### DIRECTORS

Name	Residential Address	Nationality
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#### *Executive Directors*

Mr. Joe Kwok (郭君暉)	Flat E, 10/F Tower 2, Deerhill Tower Deerhill Bay, No. 4699 Tai Po Road Tai Po, New Territories Hong Kong	Chinese
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Mr. Ken Kwok (郭君宇)	6 Eighteenth Street Hong Lok Yuen Tai Po, New Territories Hong Kong	Chinese
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#### *Non-executive Directors*

Mr. Kwok (郭茂群)	Flat D, 10/F Tower 2, Deerhill Tower Deerhill Bay, No. 4699 Tai Po Road Tai Po, New Territories Hong Kong	Chinese
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Mrs. Kwok (陳燕華)	Flat D, 10/F Tower 2, Deerhill Tower Deerhill Bay, No. 4699 Tai Po Road Tai Po, New Territories Hong Kong	Chinese
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#### *Independent Non-executive Directors*

Mr. Lee Wai Ming (李偉明)	Flat A, 45/F 18 Farm Road, To Kwa Wan, Kowloon, Hong Kong	Chinese
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Mr. Chu Kin Ming (朱健明)	Flat C, 11/F., Tower 1 Heya Aqua, Cheung Sha Wan Kowloon, Hong Kong	Chinese
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Mr. Chan Hon Wah (陳漢華)	Flat H, 47/F, Block 8 1 Tsun King Road Phase 2, Royal Ascot Sha Tin, New Territories Hong Kong	Chinese
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For further information, please refer to the section headed “Directors, Senior Management and Employees” in this prospectus.

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## DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

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### PARTIES INVOLVED IN THE SHARE OFFER

#### Sole Sponsor

##### **Cinda International Capital Limited**

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

45/F., COSCO Tower

183 Queen's Road Central

Hong Kong

#### Joint Bookrunners

##### **Cinda International Capital Limited**

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

45/F., COSCO Tower

183 Queen's Road Central

Hong Kong

##### **Head & Shoulders Securities Limited**

*A licensed corporation under the SFO to conduct type 1 (dealing in securities), type 2 (dealing in futures contracts) and type 4 (advising on securities) regulated activities*

Room 2511, 25/F, COSCO Tower

183 Queen's Road Central

Hong Kong

#### Joint Lead Managers

##### **Cinda International Capital Limited**

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

45/F., COSCO Tower

183 Queen's Road Central

Hong Kong

##### **Head & Shoulders Securities Limited**

*A licensed corporation under the SFO to conduct type 1 (dealing in securities), type 2 (dealing in futures contracts) and type 4 (advising on securities) regulated activities*

Room 2511, 25/F, COSCO Tower

183 Queen's Road Central

Hong Kong

##### **I Win Securities Limited**

*A licensed corporation under the SFO to conduct type 1 (dealing in securities) regulated activity*

Room 1916, Hong Kong Plaza

188 Connaught Road West

Sai Wan, Hong Kong

##### **Sinomax Securities Limited**

*A licensed corporation under the SFO to conduct type 1 (dealing in securities), type 4 (advising on securities) and type 9 (asset management) regulated activities*

Room 2705-6, 27/F

Tower One, Lippo Centre

89 Queensway

Hong Kong

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## DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

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### Co-Lead Managers

#### **Alpha Financial Group Limited**

*A licensed corporation under the SFO to conduct type 1 (dealing in securities) regulated activity*

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

#### **Yuzhou Financial Holdings Limited**

*A licensed corporation under the SFO to conduct type 1 (dealing in securities), type 4 (advising on securities) and type 9 (asset management) regulated activities*

Unit E, 6/F, Yardley Commercial Building  
1-6 Connaught Road West  
Sheung Wan  
Hong Kong

### Legal advisers to our Company

*As to Hong Kong law:*

#### **Hastings & Co.**

*Solicitors, Hong Kong*

5/F, Gloucester Tower, The Landmark  
11 Pedder Street  
Central  
Hong Kong

*As to Cayman Islands law:*

#### **Appleby**

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

*As to the PRC law:*

#### **China Commercial Law Firm**

21<sup>st</sup> – 23<sup>rd</sup> Floor  
Hong Kong China Travel Service Tower  
No. 4011 Shennan Road  
Futian District  
Shenzhen, PRC

*As to International Sanctions law:*

#### **Hogan Lovells**

11/F., One Pacific Place  
88 Queensway  
Hong Kong

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## DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

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

*As to Hong Kong law:*

**P.C. Woo & Co.**

*Solicitors, Hong Kong*

12<sup>th</sup> Floor, Prince's Building

10 Chater Road

Central

Hong Kong

*As to the PRC law:*

**Deheng Law Offices (Shenzhen)**

11/F, Section B Anlian Plaza

No. 4018, Jintian Road

Shenzhen

PRC

**Auditor and Reporting Accountant**

**RSM Hong Kong**

*Certified Public Accountant*

29<sup>th</sup> Floor, Lee Garden Two

28 Yun Ping Road

Causeway Bay

Hong Kong

**Industry Consultant**

**Frost & Sullivan Limited**

Suite 1706

One Exchange Square

8 Connaught Place

Hong Kong

**Property valuer**

**Greater China Appraisal Limited**

Room 2703, Shui On Centre

6-8 Harbour Road

Wanchai

Hong Kong

**Receiving bank**

**DBS Bank (Hong Kong) Limited**

11/F., The Center,

99 Queen's Road Central,

Hong Kong

**Tax Consultant**

**RSM Tax Advisory (Hong Kong) Limited**

29<sup>th</sup> Floor, Lee Garden Two

28 Yun Ping Road

Causeway Bay

Hong Kong

**Compliance adviser**

**Cinda International Capital Limited**

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

45/F, COSCO Tower

183 Queen's Road Central

Hong Kong

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## CORPORATE INFORMATION

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**Headquarter and principal place of  
business in Hong Kong registered under  
Part 16 of the Companies Ordinance**

Workshops 1605-1606, 16/F., Block B  
New Trade Plaza  
6 On Ping Street  
Sha Tin, New Territories  
Hong Kong

**Registered office in the Cayman Islands**

PO Box 1350  
Clifton House  
75 Fort Street  
Grand Cayman  
KY1-1108  
Cayman Islands

**Company's website address**

**[www.kelfred.com.hk](http://www.kelfred.com.hk)**

*(information on this website does not form part of  
this prospectus)*

**Company secretary**

Ms. Tsang Wing Kiu (曾詠翹) *HKICPA, ICAEW*  
Flat 9A, Kwong Fai Mansion  
13 Kwong Wa Street  
Mong Kok, Hong Kong

**Authorised representatives**

Mr. Joe Kwok (郭君暉)  
Flat E, 10/F  
Tower 2, Deerhill Tower  
Deerhill Bay, No. 4699 Tai Po Road  
Tai Po, New Territories  
Hong Kong

Mr. Ken Kwok (郭君宇)  
6 Eighteen Street  
Hong Lok Yuen, Tai Po  
New Territories, Hong Kong

**Audit committee**

Mr. Chu Kin Ming (朱健明) (*Chairman*)  
Mr. Chan Hon Wah (陳漢華)  
Mr. Lee Wai Ming (李偉明)

**Remuneration committee**

Mr. Chan Hon Wah (陳漢華) (*Chairman*)  
Mr. Chu Kin Ming (朱健明)  
Mr. Joe Kwok (郭君暉)  
Mr. Lee Wai Ming (李偉明)

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## CORPORATE INFORMATION

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**Nomination committee**

Mr. Joe Kwok (郭君暉) (*Chairman*)  
Mr. Chan Hon Wah (陳漢華)  
Mr. Chu Kin Ming (朱健明)  
Mr. Lee Wai Ming (李偉明)

**Risk management committee**

Mr. Lee Wai Ming (李偉明) (*Chairman*)  
Mr. Chan Hon Wah (陳漢華)  
Mr. Chu Kin Ming (朱健明)

**Cayman Islands principal share  
registrar and transfer office**

**Estera Trust (Cayman) Limited**  
PO Box 1350  
Clifton House  
75 Fort Street  
Grand Cayman  
KY1-1108  
Cayman Islands

**Hong Kong branch share registrar  
and transfer office**

**Tricor Investor Services Limited**  
Level 22  
Hopewell Centre  
183 Queen's Road East  
Hong Kong  
(with effect from 11 July 2019, address changes to:  
Level 54  
Hopewell Centre  
183 Queen's Road East  
Hong Kong)

**Principal banks**

**DBS Bank (Hong Kong) Limited**  
16/F., The Center  
99 Queen's Road Central  
Central, Hong Kong

**Standard Chartered Bank (Hong Kong) Limited**  
4-4A Des Voeux Road Central  
Hong Kong

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## INDUSTRY OVERVIEW

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*The information contained in this section and elsewhere in this prospectus have been derived from various official government and other publications generally believed to be reliable and the market research report prepared by Frost & Sullivan which we commissioned. We believe that the sources of such information and statistics are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading in any material respect or that any fact has been omitted that would render such information false or misleading in any material respect. None of our Company, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters or their respective directors, advisers (which, for the purpose of this paragraph, excludes Frost & Sullivan) and affiliates has independently verified such information and statistics and none of them gives any representation as to the accuracy of such information and statistics. As a result, you should not unduly rely upon such facts and statistics contained in this prospectus.*

### SOURCE OF INFORMATION

We commissioned Frost & Sullivan, an independent market research and consulting company, to conduct an analysis of, and to prepare a report on China, Europe and North America eyewear and spectacle frame market. The report prepared by Frost & Sullivan for us is referred to in this prospectus as the Frost & Sullivan Report. We agreed to pay Frost & Sullivan a fee of HK\$650,000 which we believe reflects market rates for reports of this type.

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

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

In compiling and preparing the research, Frost & Sullivan assumed that the social, economic and political environments in the relevant markets are likely to remain stable in the forecast period, which ensures the stable and healthy development of the China, Europe and North America eyewear and spectacle frame market.

Our Directors, after due and reasonable consideration, are of the view that the data contained in this section are reliable and not misleading and there has been no adverse change in the market information since the date of the Frost & Sullivan Report which may qualify, contradict or have an impact on the information therein.

### OVERVIEW OF EYEWEAR RETAIL MARKET IN EUROPE AND NORTH AMERICA

#### Introduction of eyewear products

Eyewear, eyeglass or spectacle, is defined as an item and accessory worn on over the eyes for purpose of improving and enhancing visual acuity, protection against the environment as well as for fashion or adornment. In general, eyewear products are sourced from different suppliers and manufacturers which specialised in their respective eyewear products including spectacle frame, spectacle lens, sunglasses and contact lens.



## INDUSTRY OVERVIEW

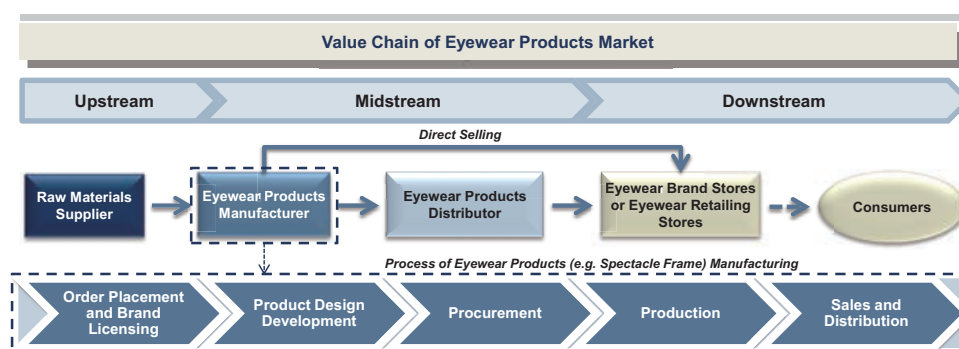


Source: Frost & Sullivan

- (i) Traditional spectacle frames are usually well designed while some are patented. Spectacle frame is also made of different small accessories, such as hinge, rim lock, wire core, screw, nose bridge and pad arm. In general, spectacle frame is made of (i) metals and alloys such as aluminium, titanium, (ii) plastic and (iii) carbon fibers. Design of spectacle frame is complementary to the spectacle lens.
- (ii) Spectacle lens serve as a key component of a spectacle, which is assembled with the specially designed spectacle frame that fits into the shape and size of spectacle lens. Specification of corrective spectacle lens such as shape, thickness, reflective index and materials are usually tailor-made for each individual consumer. As an optical product, some spectacle are made of organic glass (i.e. plastic) with light-sensitive components.
- (iii) Sunglasses are a kind of protective eyewear primarily designed to prevent sunlight and protect the eyes from ultraviolet radiation (UV) that may damage or discomfort the eyes. Lens of sunglasses are darkened and polarized, despite the variety of color depending on style, fashion and purpose. Sunglasses become a fashion accessory and different styles had been launched by high-end fashion brands.
- (iv) Contact lens refer to the thin lens placed on the eye for therapeutic or cosmetic purpose, which provides corrective function without the need to wear spectacle and better peripheral vision. Contact lens may require a regular replacement (e.g. daily disposable) due to discomfort although some extended wear contact lens has been designed for overnight wear.

### Value chain analysis

Upstream suppliers provide common raw materials such as metals (e.g. stainless steel, titanium, aluminium alloys), wood and plastic to eyewear manufacturers which include spectacle frame manufacturers. Sizable eyewear and spectacle frame manufacturers are capable of sourcing specific raw materials to support the production of eyewear products and accessories. Subject to the production capacity and customer requirement of production lead time and order quantity, it is an industry norm for eyewear manufacturers to outsource part of, or even the whole production process to subcontractors. Based on the design and specifications provided by brand owner and/or in-house designer, spectacle frame manufacturers produce spectacle frame and directly sell to retailers. Currently, most of the international eyewear brands work with spectacle frames manufacturers in China which act as Original Equipment Manufacturer (OEM) for mass production of eyewear and accessories. As another core accessories of eyewear products, lenses are generally sourced separately from lenses manufacturers. Upon receiving the order from retailers, eyewear product manufacturers would be responsible for assembly of the spectacle frames and the lenses into end eyewear product for consumers. Eyewear products such as spectacle frames are sold to downstream customers including eyewear retailing and brand stores through distributors and direct selling. In addition, it is not uncommon for eyewear products selling through online channels with the rise of e-commerce to consumers.

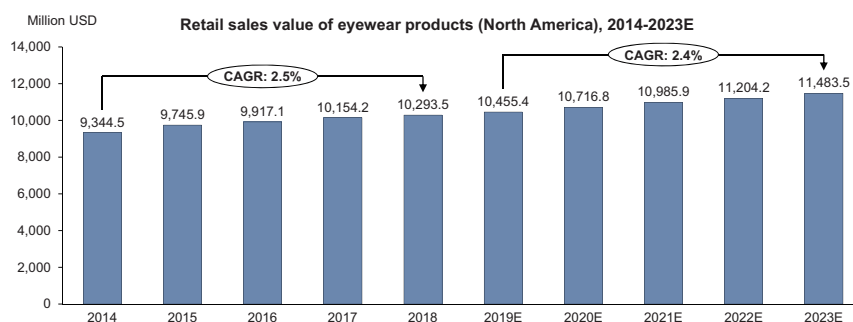


Source: Frost & Sullivan

## INDUSTRY OVERVIEW

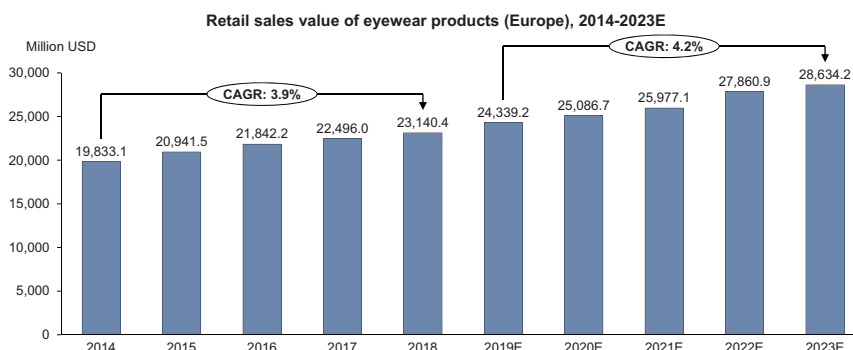
### Retail sales value of eyewear products in North America and Europe

Under various driving factors such as steady growth of economy, population and demand, total retail sales value of eyewear products in North America increased at a CAGR of 2.5% from approximately USD9,344.5 million in 2014 to approximately USD10,293.5 million in 2018. It is expected that the growth from department stores will be slowdown in North America and it will lead to a slowdown in the growth of retail sales value of eye products, which is estimated to increase at a CAGR of 2.4% during 2019 to 2023.



Source: Frost & Sullivan

The retail sales value of eyewear in Europe increased from approximately USD19,833.1 million in 2014 to approximately USD23,140.1 million in 2018, representing a CAGR of 3.9%. The demand for eyewear products and different eyewear styles and designs had driven the eyewear market growth in Europe during the past few years despite of the slowdown in GDP growth in Europe. However, as the economy is projected to recover in Europe in the next few years by the IMF, the demand for eyewear products and sunglasses will increase and drive the eyewear market in Europe to grow and reach approximately USD28,634.2 million by the end of 2023, representing a CAGR of 4.2% during 2019 to 2023.



Source: Frost & Sullivan

### Retail sales value of spectacle frames by selected regions, 2014-2023E

Region	Unit	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E	2023E	CAGR	CAGR
												(2014-2018)	(2019E-2023E)
The United States	Million USD	4,373.2	4,504.1	4,628.3	4,758.8	4,821.6	4,915.6	5,070.5	5,259.7	5,410.6	5,532.2	2.5%	2.9%
United Kingdom	Million USD	1,309.7	1,364.4	1,469.5	1,533.0	1,583.4	1,687.0	1,753.6	1,892.1	2,022.3	2,120.8	4.9%	5.9%
Europe	Million USD	12,592.8	13,376.0	13,995.6	14,490.0	14,973.8	15,895.4	16,219.1	17,540.2	18,686.5	19,380.5	4.4%	5.1%
Asia	Million USD	7,692.3	8,233.5	8,674.0	9,103.9	9,477.6	9,943.7	10,425.8	11,282.0	11,724.3	12,157.3	5.4%	5.2%

Source: Frost & Sullivan

## INDUSTRY OVERVIEW

The retail sales value of spectacle frames in the United States, the United Kingdom, Europe and Asia had witnessed a growth of a CAGR 2.5%, 4.9%, 4.4% and 5.4% respectively during 2014 to 2018. Such increase in retail sales value was mainly attributable to a rising population of multiple vision dysfunction patients, such as myopia, hyperopia, presbyopia, astigmatism and etc. By 2023, the growth of retail sales value of spectacle frames is likely to sustain in the aforementioned regions, with a CAGR of 2.9%, 5.9%, 5.1% and 5.2% respectively.

### Retail sales value of sunglasses by selected regions, 2014-2023E

Region	Unit	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E	2023E	CAGR	CAGR
												(2014-2018)	(2019E-2023E)
The United States	Million USD	3,563.1	3,803.5	3,927.5	4,122.6	4,210.3	4,356.0	4,514.2	4,750.6	4,972.3	5,180.5	4.3%	4.4%
United Kingdom	Million USD	299.4	315.2	331.5	344.6	350.6	362.1	375.8	391.5	418.4	427.3	4.0%	4.2%
Europe	Million USD	2,878.4	3,090.4	3,172.3	3,269.3	3,324.7	3,483.7	3,590.8	3,684.8	3,852.7	4,036.4	3.7%	3.8%
Asia	Million USD	3,392.5	3,622.5	3,895.3	4,062.3	4,260.5	4,430.6	4,518.3	4,758.6	4,958.6	5,207.1	5.9%	4.1%

Source: Frost & Sullivan

During 2014 to 2018, primarily driven by the global economic recovery and robust sales performance of premium sunglasses worldwide, the retail sales value of sunglasses in the United States, the United Kingdom, Europe and Asia had shown a swift increase at a CAGR of 4.3%, 4.0%, 3.7% and 5.9% respectively. With the expansion and development of online sales channel, the retail sales value of sunglasses in the United States, the United Kingdom, Europe and Asia is forecasted to grow at a CAGR of 4.4%, 4.2%, 3.8% and 4.1% respectively by the end of 2023.

### Retail sales value of contact lens by selected regions, 2014-2023E

Region	Unit	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E	2023E	CAGR	CAGR
												(2013-2017)	(2018E-2022E)
The United States	Million USD	3,921.4	4,076.3	4,284.1	4,489.4	4,752.8	4,951.6	5,197.5	5,384.6	5,577.0	5,804.2	4.9%	4.1%
United Kingdom	Million USD	825.4	866.9	918.4	948.3	964.3	986.2	1,018.4	1,054.3	1,095.2	1,131.5	4.0%	3.5%
Europe	Million USD	3,961.1	4,088.6	4,217.4	4,384.5	4,496.7	4,601.0	4,796.9	4,915.8	5,105.5	5,216.4	3.2%	3.2%
Asia	Million USD	4,003.8	4,227.5	4,416.5	4,722.1	4,912.5	5,157.4	5,418.2	5,786.6	6,109.2	6,322.8	5.3%	5.2%

Source: Frost & Sullivan

Bolstered by a growing popularity of coloured contact lens due to aesthetic reasons and the advent of low-cost manufacturing techniques in contact lens market, the retail sales value of contact lens in the United States, the United Kingdom, Europe and Asia had recorded a CAGR of 4.9%, 4.0%, 3.2% and 5.3% between 2014 and 2018 respectively. The improvement in contact lens materials, such as the adoption of silicone hydrogen-based materials, is expected to bring extra comfort to users and enhance customer experience. As such, the retail sales value of contact lens is anticipated to grow at a CAGR of 4.1%, 3.5%, 3.2% and 5.2% respectively by the end of 2023.

### Market drivers and trends

**Increasing prevalence of myopia and presbyopia** – According to World Health Organisation, it is estimated that the prevalence of myopia will reach approximately 33% of the global population and affect 2,584 million people worldwide by 2020. Principally owing to the increasing popularity of electronic devices, such as smartphones and computers, people nowadays spend more time staring at digital display screens and such prolonged exposure to near-vision work is often associated with the occurrence and progression of myopia. Besides, presbyopia, which common occurs in elder persons, is a visual inability to focus at near distances due to advancing ages. The United Nations revealed that the number of older persons aged 60 or above in the world is expected to reach 1.4 billion by 2030 and the prevalence of presbyopia is expected to further increase globally. As myopia and presbyopia can be treated by prescribing a pair of correct eyeglasses or contact lenses, such changes in modern lifestyle and ageing population will accordingly spur the demand for eyewear products in the global market.

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## INDUSTRY OVERVIEW

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*E-commerce to drive eyewear growth in the United States and Europe* – Eyewear has evolved into a fashion product where many consumers in the United States and Europe own more than a pair of eyewear for different occasions. In the past, consumers prefer to visit an eyewear retail store for a pair of sunglasses or prescription glasses where they get to try different frames and styles to decide on what design of glasses to receive. However, with the growth of e-commerce in both the United States and Europe, consumers can easily order their pair of glasses through the internet without the hassle to go to a retail store. As they are aware of the sizes of the frames and the prescription of their lenses, they are able to select the glasses they would like to order by browsing through the entire catalog of the store where sometimes the retail store may not have the space to present all the available styles and driving consumer to buy more eyewear products from online and driving the growth of the overall market.

*Introduction of multi-functional eyewear products* – In the new era of innovation, consumers expect more functions in their accessories and manufacturers have been trying to incorporate new technologies to satisfy the demanding customer needs. There is an increasing trend that more manufacturers invent smart glasses, which applies new technologies to the eyewear. Besides adding an additional information display at the corner of the lenses, it also provides a new way for customers to listen to music. Bone conduction sound system that transmits sound waves to the skull via vibrations is equipped in eyewear frames and connects to users' smartphone Bluetooth devices. As the technology will not entirely block out external sounds while listening to music, safer outdoor activities can be provided to users and be alerted. It is also expected built-in noise-cancelling microphones will be installed in eyewear frames to allow users answer phone calls so that users can enjoy high quality sound during outdoor activities. Built-in cameras are also installed in eyewear frames to allow users record their lifetime moments. The abovementioned technologies provide a holistic user experience for eyewear users and it is expected more intriguing functions in eyewear will become a market trend in the future.

### Market constraints

*Counterfeit eyewear products in Europe and the United States* – Counterfeit eyewear products, in particular counterfeit sunglasses products can be found in the United States and Europe. Consumers will be able to access to these counterfeit eyewear products of premium brands on the internet that are being sold at prices for less than half of the actual products. Consumers who are not familiar with the brands may not be able to differentiate the actual and counterfeit products and they believe they are able to buy premium sunglasses at a great discount rate. The presence of counterfeit products may hinder the growth of the eyewear market in both continents as the consumers may like to spend fewer amounts on a pair of glasses in order to purchase for more eyewear.

*Eye-corrective surgery to constrain demand on corrective glasses* – The technology of eye-corrective surgery has become matured in the United States and Europe where younger generations are open to receive the surgery these days. Despite not all consumers are fond of having an eye surgery, the upside of receiving such surgery is that it enables patients to cure their impaired vision. There is an increasing number of patients opting for the eye-corrective surgery in both continents and this increase would create constraint on the demand for eyewear products as consumers who received the surgery will no longer be needing any prescription glasses in aiding their vision.

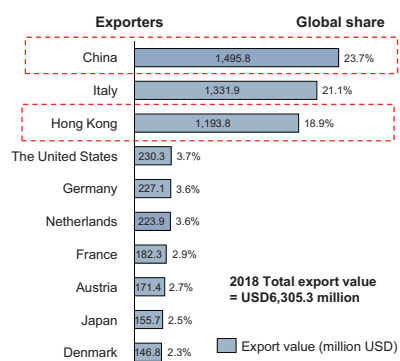
## OVERVIEW OF SPECTACLE FRAME MANUFACTURING AND EXPORT MARKET IN CHINA AND HONG KONG

### Global trade analysis on spectacle frame

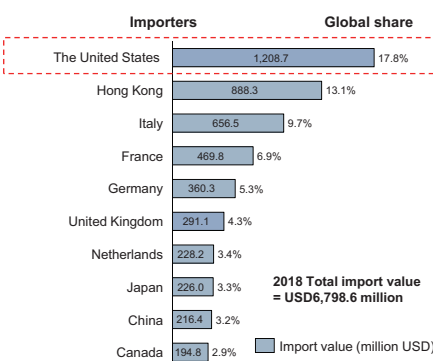
In 2018, China was the largest exporter of spectacle frame with an export value of approximately USD1,300.4 million, representing a global share of 23.7%. Italy and Hong Kong were the second and third largest exporters of spectacle frame with a global market share of 21.1% and 18.9% respectively in the same year. The United States was the largest importer of spectacle frame with a value share of 17.8% in 2018, followed by Hong Kong (13.1%) and other European countries such as Italy (9.7%), France (6.9%), Germany (5.3%) and United Kingdom (4.3%).

## INDUSTRY OVERVIEW

Top ten spectacle frame exporting countries by trade value, 2018



Top ten spectacle frame importing countries by trade value, 2018

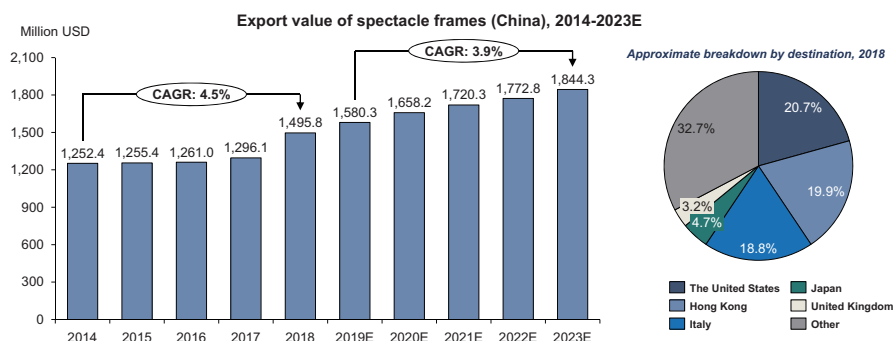


Note: Values are extracted from Trade Map of ITC under HS Code: 9003 Frames and mountings for spectacles, goggles or the like, and parts thereof, n.e.s.

Source: International Trade Centre ("ITC"), Frost & Sullivan

### Export value of spectacle frame of China

The export value of spectacle frame in China witnessed a growth from approximately USD1,252.4 million in 2014 to approximately USD1,495.8 million in 2018, representing a CAGR of 3.9%. The growth was primarily due to an increasing demand for eyewear product and spectacle frame to meet the fashion trend in the global market, particularly in the United States and European countries. The growth of export value of glass frame is expected to continue at a CAGR of 3.9% during 2019 to 2023, which is mainly driven by the continuous growth of demand for eyewear product and the expansion of customer base from growing population.

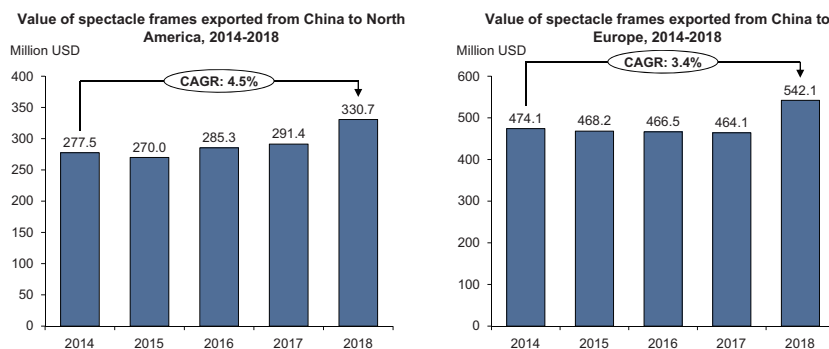


Note: Values are extracted from Trade Map of ITC under HS Code: 9003 Frames and mountings for spectacles, goggles or the like, and parts thereof, n.e.s.

Source: International Trade Centre ("ITC"), Frost & Sullivan

The value of spectacle frame exported from China to North America and Europe registered a positive growth at a CAGR of 4.5% and 3.4% respectively during 2014 to 2018, which was primarily attributable to the development of the fashion industry in western countries and the growing demand for eyewear product from consumers. The expansion of retail channels such as online retail marketplace in North America and European countries also contributes to the increase in export value of spectacle frame from China. It is estimated that the value of spectacle frame exported from China to North America and Europe will increase at a CAGR of 4.1% and 4.3% respectively during 2018 to 2022.

## INDUSTRY OVERVIEW

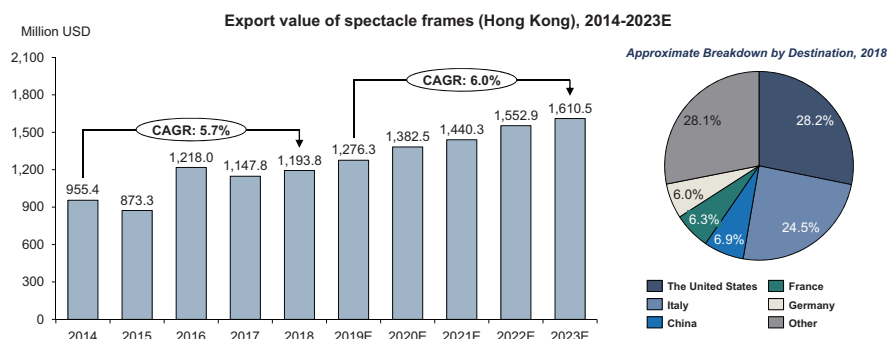


Note: Values are extracted from Trade Map of ITC under HS Code: 9003 Frames and mountings for spectacles, goggles or the like, and parts thereof, n.e.s.

Source: International Trade Centre ("ITC"), Frost & Sullivan

### Export value of spectacle frame of Hong Kong

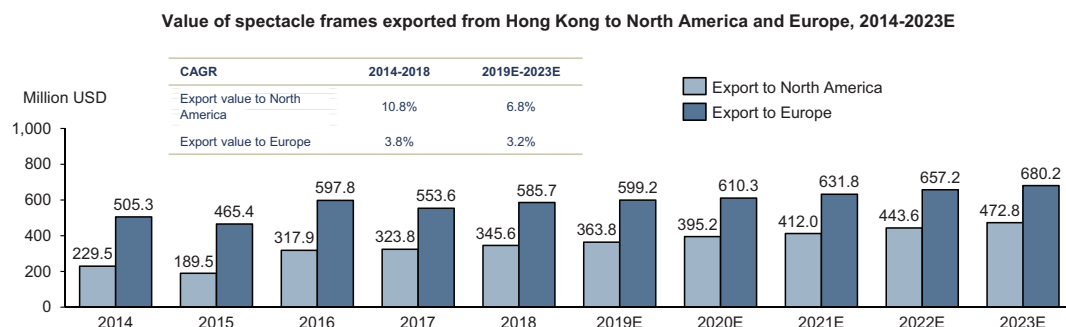
The export value of spectacle frame in Hong Kong achieved an overall growth from USD955.4 million in 2014 to USD1,193 million in 2018 despite the decline in export value during 2014 to 2015 which was attributable to the decrease in overall export trade in Hong Kong with weakened demand from European countries and North America during the same period of time. The export value of spectacle frame is expected to maintain a steady growth during 2019 to 2023 at a CAGR of 6.0%, primarily driven by the rising demand for spectacle frame in North America and European countries.



Note: Values are extracted from Trade Map of ITC under HS Code: 9003 Frames and mountings for spectacles, goggles or the like, and parts thereof, n.e.s.

Source: International Trade Centre ("ITC"), Frost & Sullivan

Value of spectacle frame exported from Hong Kong to North America and Europe has witnessed an overall growth at a CAGR of 10.8% and 3.8% respectively. With the decline in overall export trade performance in Hong Kong in 2015, the value of spectacle frame exported in North America and Europe has recorded a decline in the same year, following the increase upon the recovery of export trade in Hong Kong. Going forward, the growth in the value of spectacle frame exported from Hong Kong to North America and Europe is expected to increase at a CAGR of 6.8% and 3.2% respectively during 2019 to 2023.





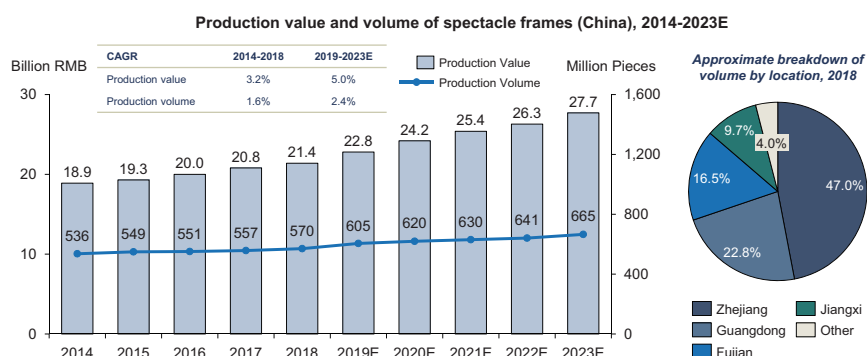
## INDUSTRY OVERVIEW

*Note: Values are extracted from Trade Map of ITC under HS Code: 9003 Frames and mountings for spectacles, goggles or the like, and parts thereof, n.e.s.*

*Source: International Trade Centre (“ITC”), Frost & Sullivan*

### Production value and volume of spectacle frame in China

The production value of spectacle frame in China registered a steady growth from approximately RMB18.9 billion in 2014 to approximately RMB21.4 billion in 2018, representing a CAGR of 3.2%. The growth was primarily due to an increasing demand featured with growing population and urbanisation in China while the growth rate was lower during 2014 to 2016 due to a decrease in export value caused by economic downturn in European countries. The rapid urbanisation and expected recovery of economy in Europe are expected to drive the growth of spectacle frame production in China. Thus, the production value of spectacle frame in China is expected to grow at a CAGR of 5.0% during 2019 to 2023. Zhejiang and Guangdong were the major production locations of spectacle frame in China, accounting for approximately 47.0% and 22.8% of total production volume of spectacle frame in 2018.



*Source: Frost & Sullivan*

### Market drivers and trends

**Strengthening eyewear manufacturing sector in China** – Eyewear and spectacle frame manufacturing industry had received strong support from the municipal government in China. In particular, Zhejiang and Guangdong are key locations of eyewear manufacturing with well-developed industry value chain from material supply, production to assembly whereby the government had offered support through provision of land and lower tax rates for eyewear manufacturers. In particular, “Action Plan for Promotion of Eyewear Industry Restructuring and Upgrading” (《推進眼鏡產業轉型升級行動方案》) and “White paper for Shenzhen Henggang Eyewear Industry Cluster Three-Year Planning” (《深圳橫崗眼鏡產業集群三年規劃白皮書》) had been promulgated by Shenzhen government to drive the growth of eyewear manufacturing sector. In addition, Government of Ouhai District in Zhejiang had promulgated “New Ten Policy to Promote the Enhancement of Eyewear Industry Development” (《促進眼鏡產業提升發展新十條政策》) in 2017 and is expected to invest RMB5 billion for the development of “eyewear town” in the next three years.

**Rising demand for sports eyewear and sunglasses** – In view of the increasing participation of outdoor and sports events, sports eyewear is on a rising demand in China and in the global market. The launch of key sports event such as 2018 and 2022 Winter Olympics Games also encourages the participation of winter sports such as skiing for general public, which contributes to growing demand for relevant equipment such as sports eyewear. On the other hand, with the growing awareness towards vision care, sunglasses become more trending in global market due to the properties of blocking harmful ultraviolet rays (e.g. UVA, UVB). In addition, sunglasses are considered as a fashion item while luxury and premium brands had been launching sunglasses with unique design, along with the influence of celebrities and fashion events which showcased sunglasses as a key item. As a result, demand for sports eyewear and sunglasses is expected to increase.

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## INDUSTRY OVERVIEW

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*Availability of new form and lightweight materials* – With the aid of advanced material technology, application of super light-weight and strong materials becomes a key element in spectacle frame and give rise to unique appearance and durability of eyewear. In particular, titanium, including pure titanium, ethyl titanium and memory titanium, becomes a common raw material for spectacle with key properties of light weight, corrosion-resistance and anti-allergic. On the other hand, plastic frame, including plate plastic and nylon (TR90) is still the major raw material for spectacle frame manufacturer in China focusing on mass market products due to low cost and long durability. Additionally, polycarbonate, acrylic and blended nylon material have been commonly used in sports eyewear.

### Market opportunities

*Expansion of trading business under “belt-and-road” initiatives* – As a key manufacturing country of spectacle frame in the world, eyewear manufacturers in China, particularly those located in Shenzhen, usually serve as original equipment manufacturers (OEMs) for brand owners in European countries and North America which are also key destinations for export of eyewear products from China and Hong Kong. The launch of “Belt-and-road” initiatives put forth the economic co-operation among countries in the proposed route and foster trading business between China and countries involved. Specifically, manufacturers and exporters of spectacle frame in China and Hong Kong may expand their geographical coverage from European countries to other regions such as the Southeast Asia.

### Market challenges

*More stringent regulatory and sustainability requirement* – Spectacle frame manufacturers in China and Hong Kong may face high regulatory requirements when exporting the eyewear products to European countries and the United States. Specifically, some corrective eyewear which are considered as medical devices and sunglasses are required to comply with relevant product safety and quality standards set out by European Union and the United States Food and Drug Administration (“FDA”) respectively. For example, several FDA regulations such as certification as impact resistant applies to spectacle lens and sunglasses, coupled with medical device listing, good manufacturing practice, quality and registration requirements established by FDA on manufacturers, importers and distributors. Furthermore, with growing awareness and requirement of sustainability and social responsibilities, brand owners may prefer manufacturers in compliance with internal audit standard. Meanwhile, the Ministry of Industry and Information Technology also formulated “Industrial Green Development Plan (2016-2020)” (工業綠色發展規劃(2016-2020年)) which highlighted the plan for green production in manufacturing sector. Hence, manufacturers are expected to review their production flow on a regular basis to fulfill the relevant regulatory requirements, which may pose a threat to small scale unqualified manufacturers in the industry.

*Rising labour cost* – The rising labour cost becomes a threat to eyewear and spectacle frame manufacturers in China and Hong Kong. According to the National Bureau of Statistics of China, the average wage of employed persons in manufacturing industry in the PRC has registered a substantial growth from RMB46,431 in 2013 to RMB64,452 in 2017. Thus, the rising labour cost may put addition financial burden on the manufacturers with heavy reliance on workers to make hand-made spectacle frame.

### Cost structure analysis

The average wage of employed persons in urban areas in manufacturing industry in China has witnessed a significant growth in recent years, which was primarily due to strong demand for workers and elevated minimum salary standard in China. In particular, the average wage of employed persons in manufacturing industry in the PRC has registered a substantial growth from RMB46,431 in 2013 to RMB64,452 in 2017, representing a CAGR of 8.5%. With an evolving economic environment, the average wage of employed persons in urban areas in manufacturing industry is expected to reach approximately RMB97,451 by the end of 2022, representing a CAGR of 8.6%. On the other hand, the average price of key raw materials for spectacle frame manufacturing in China recorded an overall increase during 2014 to 2018.

#### Average price of key raw materials in spectacle frame manufacturing (China), 2014-2018

Raw Materials	Unit	2014	2015	2016	2017	2018	CAGR (2014- 2018)
Titanium	RMB / Ton	11,070.3	10,383.9	8,960.6	11,175.1	10,697.6	-0.9%
Aluminium	RMB / Ton	1,867.4	1,664.7	1,604.2	1,878.8	1,912.5	0.6%
Stainless Steel	Index (2012 May = 100)	82.0	83.3	76.7	81.4	101.0	5.4%
Polycarbonate	RMB / Ton	19,393	18,728	20,748	24,510	25,441	7.0%

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



## INDUSTRY OVERVIEW

### Average selling price of spectacle frames and sunglasses

The following table sets forth the historical trend of average export unit price of spectacle frames and sunglasses in Hong Kong.

#### Average export unit price of spectacle frames and sunglasses (Hong Kong), 2014-2018

Item	Unit	2014	2015	2016	2017	2018	CAGR (2014-2018)
Spectacle frames	HK\$ per unit	78.8	80.5	81.6	82.0	86.0	2.2%
Sunglasses	HK\$ per unit	73.7	77.7	115.7	111.8	121.5	13.3%

Source: Hong Kong Census and Statistics Department, Frost & Sullivan

### COMPETITIVE LANDSCAPE OF SPECTACLE FRAME MANUFACTURING AND EXPORT MARKET IN CHINA AND HONG KONG

#### Overview of competitive landscape

The spectacle frame manufacturing market in China is highly fragmented and, as estimated, there were approximately 6,000 manufacturers in China. On the other hand, approximately less than 150 spectacle frame manufacturers principally engaged in exporting business in Hong Kong in 2018. Our Group was the fifth largest manufacturer and exporter in Hong Kong with an approximate market share of 3.3% in terms of revenue in 2018.

#### Ranking of leading manufacturers and exporters of spectacle frame by revenue (Hong Kong), 2018

Rank	Market player	Listed	Year of establishment	Principal business segment	Revenue generated from export of spectacle frame, 2018 (HK\$ million)	Market Share (%)
1	Company A	Yes	1999	Production (on an ODM basis) and sales of reading glasses, sunglasses, metal and plastic spectacle frame	1,028.7	11.0%
2	Company B	Yes	1973	Manufacturing and trading of fitted frames and sunglasses	585.6	6.3%
3	Company C	No	1998	Design, production and sales of eyewear products	468.6	5.0%
4	Company D	No	1992	Wholesale of clothing, fashion accessories and eyewear products	410.0	4.4%
5	Our Group	No	1986	Production of spectacle frames and sunglasses for customers mainly operating in Europe	308.1	3.3%
Subtotal					2,801.0	30.1%
Other					6,510.6	69.9%
Total					9,311.6	100.0%

Note: The exchange rate of USD/HK\$= 1:7.8 has been applied for conversion of currency in export value. Revenue of our Group is based on revenue generated from export of spectacle frames to other overseas countries, which is derived based on revenue generated from sales of spectacle frame and proportion of total revenue generated from sales to European countries, the United States and other countries.

Source: Frost & Sullivan

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## INDUSTRY OVERVIEW

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### Factors of competition

*Strong production capability and timely delivery* – The capability of manufacturing and delivering high quality eyewear products and spectacle frame to customers serve as a key differentiator for market participants. Furthermore, with the shortened lifecycle of eyewear products and continuous launch of new styles from brand owners and retailers, customers usually demonstrate a strong preference towards manufacturers with short production lead time and make timely delivery for the eyewear products in order to meet the demand in end market.

*Fulfillment of regulatory standards in overseas market* – Eyewear products being imported into the European Union (“EU”) and the United States shall fulfill the regulatory requirement set out by respective authorities, such as the ANSI Z80.3 enforced by the United States which regulates non-prescription sunglasses and fashion eyewear as well as the Regulation (EU) 2016/425 on personal protective equipment that eyewear products must meet specified safety requirements and bear a CE logo prior to sales in the EU market. Thus, spectacle frame manufacturers with capability of manufacturing products complying with respective regulatory requirement are considered as more competitive.

### Entry barriers

*Established relationship between stakeholders* – In general, existing market players had established a good business relationship with various stakeholders in the industry, including upstream raw material suppliers and downstream customers. In particular, market players in China and Hong Kong serving for overseas eyewear brand owners and retailers on an OEM or ODM basis had generally entered into licensing agreements to manufacture spectacle frame based on specifications provided by customers or through in-house product development. In addition, established market participants are usually capable of sourcing desirable raw materials from different suppliers. In contrast, new entrants without such established business relationship are difficult to start or sustain their business.

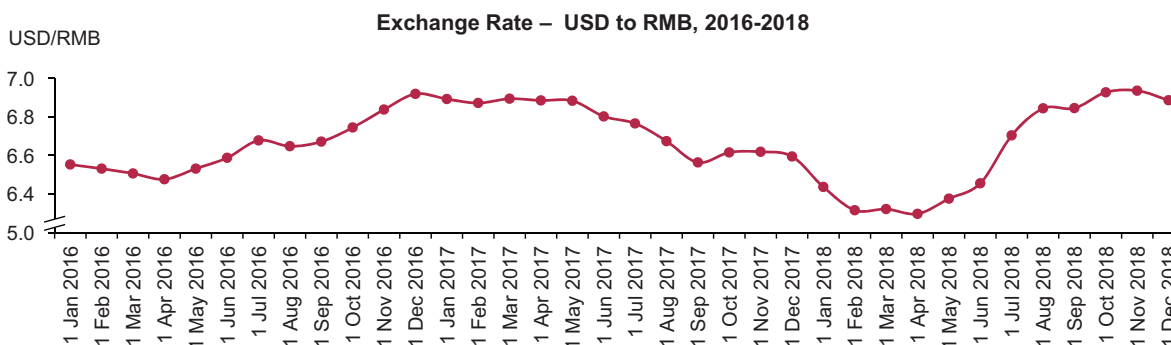
*Industry knowledge on quality and safety standards* – Capability of manufacturing and supplying high quality spectacle frame is generally preferred by customers, especially for overseas brand owners and eyewear retailers as generally authorities and consumers in European countries and North America place high emphasis on product quality and safety. Thus, without the industry knowledge and production capability, new entrants are unable to meet the quality and safety standard specified by major eyewear brand owners, international organisations and relevant regulatory authorities in overseas market, such as the EU.

### Competitive advantages of the Group

Please refer to the section headed “Business – Competitive Strengths” in this document for a detailed discussion of our Group’s competitive strengths.

### Exchange rate

The following chart sets forth the historical USD/RMB exchange rate fluctuations for the periods indicated.



Source: People’s Bank of China, Frost & Sullivan

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## REGULATORY OVERVIEW

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### HONG KONG LAWS AND REGULATIONS

During the Track Record Period, the sales, marketing and other administrative activities are principally undertaken by our subsidiaries in Hong Kong. To the best knowledge and belief of the Directors, our Group has complied with the relevant applicable laws and regulations in all material respects for its business operations in Hong Kong during the Track Record Period and up to the Latest Practicable Date. Such major relevant Hong Kong laws and regulations are set out below:

#### Consumer Goods Safety Ordinance

The Consumer Goods Safety Ordinance (Chapter 456 of the Laws of Hong Kong) (the “**Consumer Goods Safety Ordinance**”) imposes a duty on manufacturers, importers and suppliers of certain consumer goods to ensure that the consumer goods they supply are safe and for incidental purposes.

Section 4(1) of the Consumer Goods Safety Ordinance requires consumer goods to be reasonably safe having regard to all of the circumstances including the manner in which, and the purpose for which the products are presented, promoted or marketed, the use of any mark in relation to the products, instructions and warnings given for the keeping or use of the products, reasonable safety standards published by a standard institute or other similar bodies and the existence of any reasonable means to make the products safer.

The Consumer Goods Safety Ordinance also imposes criminal penalties for breaches of safety requirements. Section 9 of the Consumer Goods Safety Ordinance provides that where the Commissioner of Customs and Excise reasonably believes that consumer goods do not comply with the safety requirements and there is a significant risk that such consumer goods will cause a serious injury, the Commissioner of Customs and Excise may serve a recall notice requiring the immediate withdrawal of those consumer goods.

#### Sale of Goods Ordinance

Contracts for the sale of goods in Hong Kong are mainly governed by the Sale of Goods Ordinance (Chapter 26 of the Laws of Hong Kong) (the “**Sale of Goods Ordinance**”).

Section 16 of the Sale of Goods Ordinance provides that where a seller sells goods in the course of business, there is an implied condition that (a) where the goods are purchased by description, the goods must correspond with the description; (b) the goods supplied are of merchantable quality; and (c) the goods must be fit for the purpose for which they are purchased. Otherwise, a buyer has the right to reject defective goods unless he or she has a reasonable opportunity to examine the goods.

The Sale of Goods Ordinance provides implied terms for the standard of goods sold by our Group to its customers. The business of our Group is subject to the Sale of Goods Ordinance. A breach of the implied term(s) may give rise to a civil action for breach of contract by customers. However, no criminal liability arises from a breach of the implied term(s).

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## REGULATORY OVERVIEW

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### Import and Export Ordinance

The Import and Export Ordinance (Chapter 60 of the Laws of Hong Kong) (the “**Import and Export Ordinance**”) governs the importation of products into, and the export of products from Hong Kong.

Regulations 4 and 5 of the Import and Export (Registration) Regulations (Chapter 60E of the Laws of Hong Kong) (the “**Import and Export (Registration) Regulations**”) set out that every person who imports or exports any article other than an exempted article shall lodge with the Commissioner of Customs and Excise an accurate and complete import or export declaration relating to such article using services provided by a specified body in accordance with the requirements that the Commissioner may specify. Every declaration shall be lodged within 14 days after the importation or exportation of the article to which it relates. Any person who fails or neglects to do so without any reasonable excuse shall be liable to (i) a fine of HK\$1,000 upon summary conviction; and (ii) a fine of HK\$100 in respect of everyday during his failure or neglect to lodge such declaration in that manner continues commencing from the day following the date of conviction. Regulations 4 and 5 also provide that any person knowingly or recklessly lodges any declaration with the Commissioner that is inaccurate in any material particular shall be liable to a fine of HK\$10,000 upon summary conviction.

Regulation 7 of the Import and Export (Registration) Regulations sets out the charges payable on the late lodgement of declarations, in addition to the penalty set out in the said Regulations 4 and 5, in respect of the total values of articles specified in an import or export declaration and different time periods of lodging an import or export declaration.

### Trade Descriptions Ordinance

The Trade Descriptions Ordinance (Chapter 362 of the Laws of Hong Kong) (the “**Trade Descriptions Ordinance**”) prohibits false trade description, false, misleading or incomplete information in respect of goods offered in the course of trade.

Section 7 of the Trade Descriptions Ordinance provides that no person shall in the course of trade or business apply a false trade description to any goods or sell or offer for sale any goods with false trade descriptions applied thereto.

Section 7A of the Trade Descriptions Ordinance provides that a trader who applies a false trade description to a service supplied or offered to be supplied to a customer, or supplies or offers to supply to a consumer a service to which a false trade description is applied, commits an offence.

Sections 13E, 13F, 13G, 13H and 13I of the Trade Descriptions Ordinance provide that a trader who engages in relation to a consumer in a commercial practice that (a) is a misleading omission; or (b) is aggressive; (c) constitutes bait advertising; (d) constitutes a bait and switch; or (e) constitutes wrongly accepting payment for a product, commits an offence.

According to section 18 of the Trade Descriptions Ordinance, a person who commits an offence under sections 7, 7A, 13E, 13F, 13G, 13H or 13I shall be subject, on conviction on indictment, to a fine of HK\$500,000 and to imprisonment for five years, and on summary conviction, to a fine at HK\$100,000 and to imprisonment for two years.

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## REGULATORY OVERVIEW

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### Regulations Concerning Transfer Pricing

Regulations concerning transfer pricing between associated enterprises can be found in the Inland Revenue Ordinance and the comprehensive double taxation agreements (the “DTAs”) between Hong Kong and other countries or territories, including the PRC. Pursuant to section 20(2) of the Inland Revenue Ordinance, a non-Hong Kong resident shall be liable to Hong Kong profits tax where it carries on business with a closely connected resident person and such business is so arranged that it produces to the resident person either no profits which arise in or derive from Hong Kong or less than the ordinary profits which might be expected to arise in or derive from Hong Kong. Under section 60 of the Inland Revenue Ordinance, where it appears to an assessor that for any year of assessment any person chargeable with tax has not been assessed or has been assessed at less than the proper amount, the assessor may, within the year of assessment or within 6 years after the expiration thereof, assess such person at the amount or additional amount which according to his judgment such person ought to have been assessed, and, provided that where the non-assessment or under-assessment of any person for any year of assessment is due to fraud or wilful evasion, such assessment or additional assessment may be made at any time within 10 years after the expiration of that year of assessment.

The DTAs contain provisions mandating the adoption of arm’s length principle for pricing transactions between associated enterprises. The arm’s length principle uses the transactions of independent enterprises as a benchmark to determine how profits and expenses should be allocated for the transactions between associated enterprises. The basic rule in DTAs is that profits tax charged or payable should be adjusted, where necessary, to reflect the position which would have existed if the arm’s length principle had been applied instead of the actual price transacted between the enterprises. The Departmental Interpretation and Practice Notes No. 45 – Relief from Double Taxation due to Transfer Pricing or Profit Reallocation Adjustments issued by the Inland Revenue Department in April 2009 makes it available that where double taxation arises as a result of transfer pricing adjustments made by the tax authorities of another country, a Hong Kong taxpayer may potentially claim relief under the tax treaty between Hong Kong and that country (PRC is one of the countries which have entered into tax arrangements with Hong Kong). The Inland Revenue Department also issued a Departmental Interpretation and Practice Notes No. 46 in December 2009 which provides a comprehensive guideline on transfer pricing and further issued a Departmental Interpretation and Practice Notes No. 48 in March 2012 which provides a mechanism for taxpayers to pre-agree their transfer pricing arrangements with the Inland Revenue Department.

### PRC LAWS AND REGULATIONS

During the Track Record Period, our production activities are principally based in the PRC. To the best knowledge and belief of the Directors, our Group has complied with the relevant applicable laws and regulations in all material respects for its business operations in the PRC during the Track Record Period and up to the Latest Practicable Date. Such major relevant PRC laws and regulations are set out below:

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## REGULATORY OVERVIEW

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### Laws and Regulations on Foreign Investment

The establishment, operation and management of corporate entities in the PRC are governed by the PRC Company Law (中華人民共和國公司法) (the “**PRC Company Law**”), which was promulgated on 29 December 1993 and was amended respectively on 25 December 1999, 28 August 2004, 27 October 2005, 28 December 2013 and 26 October 2018 and the Regulations of the PRC on the Administration of Company Registration (中華人民共和國公司登記管理條例) was promulgated on 24 June 1994 and was amended respectively on 18 December 2005, 19 February 2014 and 6 February 2016.

The relevant laws governing foreign investment include but not limited to the PRC Laws on Wholly Foreign Owned Enterprises (中華人民共和國外資企業法) promulgated by the National People’s Congress Standing Committee (the “**NPCSC**”) on 12 April 1986 and amended respectively on 31 October 2000 and 3 September 2016, the Implementation Rules of the PRC Law on Wholly Foreign Owned Enterprises (中華人民共和國外資企業法實施細則) promulgated by the State Council on 12 December 1990 and amended respectively on 12 April 2001 and 19 February 2014, and the Interim Measures for the Recordation Administration of the Formation and Modification of Foreign Invested Enterprises (外商投資企業設立及變更備案管理暫行辦法) promulgated on 8 October 2016 and amended respectively on 30 July 2017 and 29 June 2018.

Any investments conducted by the foreign investors and enterprises in the PRC shall be subject to the Provisions on Guiding the Orientation of Foreign Investment (指導外商投資方向規定) which was promulgated on 11 February 2002, the Guidance Catalogue of Industries for the Foreign Investment (外商投資產業指導目錄) (the “**Foreign Investment Catalogue**”) which was promulgated by the Ministry of Commerce of the PRC (the “**MOFCOM**”) and the National Development and Reform Commission on 28 June 2017 and became effective on 28 July 2017, and Special Management Measures (Negative List) for the Access of Foreign Investment (外商投資准入特別管理措施(負面清單)) (the “**Negative List**”) which was promulgated on 28 June 2018 and became effective on 28 July 2018.

On 15 March 2019, the National People’s Congress of the PRC (the “**NPC**”) adopted the PRC Foreign Investment Law (中華人民共和國外商投資法) (the “**Foreign Investment Law**”) at the closing meeting of the second session of the 13th NPC. Upon taking effect on 1 January 2020, the Foreign Investment Law will replace the PRC Laws on Sino-foreign Equity Joint Ventures (中華人民共和國中外合資經營企業法), the PRC Laws on Sino-Foreign Cooperative Joint Ventures (中華人民共和國中外合作經營企業法) and the PRC Laws on Wholly Foreign Owned Enterprises Law to become the legal foundation for foreign investment in the PRC.

### Laws and Regulations on Import and Export of Goods

Pursuant to the Regulations on the Administration over Import and Export of Goods of the PRC (中華人民共和國貨物進出口管理條例) promulgated by the State Council on 10 December 2001, the import and export of goods are generally allowed by the PRC government, but the prohibitions or restrictions explicitly stipulated in the laws or administrative regulations shall still be complied with during the conduct of import and export of goods by individuals or entities.



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## REGULATORY OVERVIEW

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Pursuant to the Foreign Trade Law of the PRC (中華人民共和國對外貿易法) promulgated by the NPCSC on 12 May 1994 and amended respectively on 6 April 2004 and 7 November 2016, the State may restrict or prohibit the import or export of relevant goods or technologies for the prescribed reasons.

### **Laws and Regulations on Merger and Acquisition and Overseas Listings**

The Regulations on Merger and Acquisition of Domestic Enterprises by Foreign Investors (關於外國投資者併購境內企業的規定) (the “**M&A Rules**”) were promulgated by six PRC governmental and regulatory agencies including MOFCOM and the China Securities Regulatory Commission (the “**CSRC**”) on 8 August 2006 and were amended on 22 June 2009. Pursuant to the M&A Rules, a foreign investor is required to obtain necessary approvals when it (a) acquires the equity of a domestic enterprise so as to convert the domestic enterprise into a foreign-invested enterprise; (b) subscribes the increased capital of a domestic enterprise so as to convert the domestic enterprise into a foreign-invested enterprise; (c) establishes a foreign-invested enterprise through which it purchases the assets of a domestic enterprise and operates these assets; or (d) purchases the assets of a domestic enterprise, and then invests such assets to establish a foreign-invested enterprise. A special purpose vehicle (“**SPV**”), formed for listing purposes and controlled directly or indirectly by PRC companies or individuals, shall obtain the approval of the CSRC prior to the listing and trading of such SPV’s securities on an overseas stock exchange, especially in the event that the SPV acquires shares of or equity interests in the PRC companies in exchange for the shares of offshore companies.

### **Laws and Regulations on Foreign Exchange**

The Foreign Exchange Administration Rules of the PRC (中華人民共和國外匯管理條例) (the “**Foreign Exchange Administration Rules**”) were promulgated by the State Council on 29 January 1996 and were amended respectively on 14 January 1997 and 5 August 2008. Pursuant to the rules, RMB is generally freely convertible for payments of current account items, such as trade and service-related foreign exchange transactions and dividend payments, but is not freely convertible for capital account items, such as capital transfer, direct investment, investment in securities, derivative products or loans, unless the prior approval by the competent authorities for the administration of foreign exchange is obtained.

### **Laws and Regulations on Taxation**

#### *Enterprise Income Tax*

Pursuant to the PRC Enterprise Income Tax Law (中華人民共和國企業所得稅法) (the “**EIT Law**”) promulgated on 16 March 2007, amended on 24 February 2017 and 29 December 2018, the income tax rate for both domestic and foreign-invested enterprises is 25%, and the existing tax exemptions, reductions and preferential treatment which had been enjoyed by foreign-invested enterprises were abolished unless otherwise specified. Enterprises established outside the PRC whose “de facto management bodies” are located in the PRC are considered as “resident enterprises” and are subject to the uniform 25% enterprise income tax rate for their global income.

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## REGULATORY OVERVIEW

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Pursuant to the PRC Enterprise Income Tax Law and the Implementation Rules of PRC Enterprise Income Tax Law (中華人民共和國企業所得稅法實施條例) promulgated on 6 December 2007 and amended on 23 April 2019, non-resident enterprises which have not set up institutions or premises in the PRC, or where the institutions or premises are set up but the income has no actual relationship with such institutions or premises shall be subject to the withholding tax rate of 10% on its income derived from the after-taxed profit of its subsidiary.

Pursuant to the Announcement of the State Administration of Taxation of the PRC (中華人民共和國國家稅務總局) (the “**State Administration of Taxation**”) on Several Issues Concerning the Enterprise Income Tax on Indirect Property Transfer by Non-Resident Enterprises (國家稅務總局關於非居民企業間接轉讓財產企業所得稅若干問題的公告) (the “**Announcement No. 7**”) promulgated and came into effect on 3 February 2015, where a non-resident enterprise indirectly transfers properties such as equity in the PRC resident enterprises without any reasonable commercial purposes with the aim of avoiding paying enterprise income tax, such indirect transfer shall be reclassified as a direct transfer of equity in the PRC resident enterprise in accordance with Article 47 of the EIT Law. Section Two, Article Eight of the Announcement No. 7 was later abolished by the Announcement of the State Administration of Taxation on Matters Concerning Withholding of Income Tax of Non-resident Enterprises at Source (國家稅務總局關於非居民企業所得稅源泉扣繳有關問題的公告), which was promulgated on 17 October 2017 and became effective on 1 December 2017. Article Thirteen of the Announcement No. 7 was also abolished by the State Administration of Taxation on 29 December 2017.

On 8 January 2009, the State Administration of Taxation promulgated the Measures for the Implementation of Special Tax Adjustments (for Trial Implementation) (特別納稅調整實施辦法(試行), Guoshuifa 2009 No. 2, the “**Circular 2**”) to regulate the administration of special tax adjustments. The Circular 2 applies to taxation organs’ administration of tax adjustments in respect of enterprises’ transfer pricing, advance pricing arrangements, cost apportionment agreements, controlled foreign enterprises, thin capitalization and general anti-tax avoidance. Subsequently, parts of the Circular 2 were superseded by several regulations. In particular, Chapter II and III of the Circular 2 relating to the associated filing and the preparation of the same-period documentations were abolished by the Announcement of the State Administration of Taxation on Relevant Matters relating to Improvement of the Filing of Related-Party Transactions and the Management of Contemporaneous Documentation (國家稅務總局關於完善關聯申報和同期資料管理有關事項的公告) promulgated by the SAT on 29 June 2016 and applies to the fiscal year of 2016 and any fiscal year thereafter.

### *Value-added Tax*

Pursuant to the Provisional Regulations on Value-added Tax of the PRC (中華人民共和國增值稅暫行條例), which was promulgated on 13 December 1993 and was amended respectively on 10 November 2008, 6 February 2016 and 19 November 2017, and its implementation rules, all entities and individuals engaged in the sales of goods, provision of processing, repairs and replacement services, and the importation of goods within the territory of the PRC shall pay value-added tax (“**VAT**”). VAT payable is calculated as “output VAT” minus “input VAT”.



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## REGULATORY OVERVIEW

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### Laws and Regulations on Labour and Insurance

#### *Labour*

Enterprises in the PRC are subject to the PRC Labour Law (中華人民共和國勞動法) (the “**PRC Labour Law**”), the PRC Labour Contract Law (中華人民共和國勞動合同法) (the “**PRC Labour Contract Law**”) and the Implementations Regulations of the PRC Labour Contract Law (中華人民共和國勞動合同法實施條例), as well as other related regulations, rules and provisions issued by the relevant governmental authorities from time to time for such enterprises’ operations in the PRC. The PRC Labour Contract Law, which was promulgated on 29 June 2007 and was amended on 28 December 2012, provides stricter requirements in human resources management in terms of signing labour contracts with employees, stipulating probation and violation penalties, dissolving labour contracts, paying remuneration and economic compensation, use of labour dispatch, as well as social security premiums.

#### *Social Insurance and Housing Provident Fund*

The social insurance shall mainly be governed by the PRC Social Insurance Law (中華人民共和國社會保險法) promulgated on 28 October 2010 and amended on 29 December 2018 and the Provisional Regulations on the Collection of Social Insurance Fees (社會保險費徵繳暫行條例) promulgated on 22 January 1999, and amended on 24 March 2019.

Pursuant to the Administrative Regulations on Housing Provident Funds (住房公積金管理條例), which was promulgated by the State Council on 3 April 1999 and was amended on 24 March 2002 and 24 March 2019, a unit (including a foreign-invested enterprise) shall undertake the registration with the administrative centre of housing provident funds and pay the funds for its staff.

### Laws and Regulations on Product Quality

#### *Product Quality*

Pursuant to the Product Quality Law of the PRC (中華人民共和國產品質量法) promulgated on 22 February 1993 and amended respectively on 8 July 2000, 27 August 2009 and 29 December 2018, manufacturers shall be responsible to compensate for the injury to a person or damage to property other than the defective products caused by the defect of products, unless the manufacturer is able to prove that: (a) the products have not been put into circulation; (b) the defects are non-existent when the products are put into circulation; and (c) the defects cannot be found at the time of circulation due to scientific and technological reasons. Defects mentioned above refer to the irrational dangers existing in the products that threaten the safety of person or property, or the products that fall short of the national standards or industrial standards for the protection of body health and safety of person (if any).

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## REGULATORY OVERVIEW

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### **Laws and Regulations on Environmental Protection**

#### *Environment Protection*

Pursuant to the Environmental Protection Law of the PRC (中華人民共和國環境保護法) promulgated on 26 December 1989 and amended on 24 April 2014, the Administrative Regulations on Environmental Protection for Construction Project (建設項目環境保護管理條例) promulgated on 29 November 1998 and amended on 16 July 2017 and the Environmental Impact Assessment Law of the PRC (中華人民共和國環境影響評價法) promulgated on 28 October 2002 and amended on 2 July 2016 and on 29 December 2018, an enterprise, which causes environmental pollution and discharges other materials which endanger the public, shall implement environmental protection methods and procedures into its business operations.

### **Laws and Regulations on Intellectual Property**

#### *Trademark*

Pursuant to the Trademark Law of the PRC (中華人民共和國商標法), which was promulgated on 23 August 1982 and was respectively amended on 22 February 1993, 27 October 2001, 30 August 2013 and 23 April 2019 (effective on 1 November 2019) certain acts as prescribed shall be an infringement upon the right to exclusive use of a registered trademark.

## **SANCTIONS LAWS AND REGULATIONS**

During the Track Record Period, we made sales of our eyewear products, directly and indirectly, to certain customers located in Russia and Tunisia. We also made deliveries of our eyewear products to Russia with respect to certain customers located in countries/regions not being subject to International Sanction during the Track Record Period. Hogan Lovells, our International Sanctions Legal Advisers, has provided the following summary of the sanctions regimes imposed by their respective jurisdictions.

### **United States**

#### *Treasury regulations*

OFAC is the primary agency responsible for administering US sanctions programmes against targeted countries, entities, and individuals. “Primary” US sanctions apply to “US persons” or activities involving a US nexus (e.g. funds transfers in US currency or activities involving US-origin goods, software, technology or services even if performed by non-US persons), and “secondary” US sanctions apply extraterritorially to the activities of non-US persons even when the transaction has no US nexus. Generally, US persons are defined as entities organised under US law (such as companies and their US subsidiaries); any US entity’s domestic and foreign branches (sanctions against Iran and Cuba also apply to US companies’ foreign subsidiaries or other non-US entities owned or controlled by US persons); US citizens or permanent resident aliens (“green card” holder), regardless of their location in the world; individuals physically present in the United States; and US branches or US subsidiaries of non-US companies.

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## REGULATORY OVERVIEW

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Depending on the sanctions program and/or parties involved, US law also may require a US company or a US person to “block” (freeze) any assets/property interests owned, controlled or held for the benefit of a sanctioned country, entity, or individual when such assets/property interests are in the United States or within the possession or control of a US person. Upon such blocking, no transaction may be undertaken or effected with respect to the asset/property interest – no payments, benefits, provision of services or other dealings or other type of performance (in case of contracts/agreements) – except pursuant to an authorisation or licence from OFAC.

OFAC’s comprehensive sanctions programmes currently apply to Cuba, Iran, North Korea, Syria, and the Crimea region of Russia/Ukraine (the comprehensive OFAC sanctions programme against Sudan was terminated on 12 October 2017). OFAC also prohibits virtually all business dealings with persons and entities identified in the SDN List. Entities that a party on the SDN List owns (defined as a direct or indirect ownership interest of 50% or more, individually or in the aggregate) are also blocked, regardless of whether that entity is expressly named on the SDN List. Additionally, US persons, wherever located, are prohibited from approving, financing, facilitating, or guaranteeing any transaction by a non-US person where the transaction by that non-US person would be prohibited if performed by a US person or within the United States.

### **United Nations**

The United Nations Security Council (the “UNSC”) can take action to maintain or restore international peace and security under Chapter VII of the United Nations Charter. Sanctions measures encompass a broad range of enforcement options that do not involve the use of armed force. Since 1966, the UNSC has established 30 sanctions regimes.

The UNSC sanctions have taken a number of different forms, in pursuit of a variety of goals. The measures have ranged from comprehensive economic and trade sanctions to more targeted measures such as arms embargoes, travel bans, and financial or commodity restrictions. The UNSC has applied sanctions to support peaceful transitions, deter non-constitutional changes, constrain terrorism, protect human rights and promote non-proliferation.

There are 14 ongoing sanctions regimes which focus on supporting political settlement of conflicts, nuclear non-proliferation, and counter-terrorism. Each regime is administered by a sanctions committee chaired by a non-permanent member of the UNSC. There are ten monitoring groups, teams and panels that support the work of the sanctions committees.

United Nations sanctions are imposed by the UNSC, usually acting under Chapter VII of the United Nations Charter. Decisions of the UNSC bind members of the United Nations and override other obligations of United Nations member states.

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## REGULATORY OVERVIEW

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### European Union

Under European Union sanction measures, there is no “blanket” ban on doing business in or with a jurisdiction targeted by sanctions measures. It is not generally prohibited or otherwise restricted for a person or entity to do business (involving non-controlled or unrestricted items) with a counterparty in a country subject to European Union sanctions where that counterparty is not a Sanctioned Person or not engaged in prohibited activities, such as exporting, selling, transferring or making certain controlled or restricted products available (either directly or indirectly) to, or for use in a jurisdiction subject to sanctions measures.

### Australia

The Australian restrictions and prohibitions arising from the sanctions laws apply broadly to any person in Australia, any Australian anywhere in the world, companies incorporated overseas that are owned or controlled by Australians or persons in Australia, and/or any person using an Australian flag vessel or aircraft to transport goods or transact services subject to United Nations sanctions.

### Applicability to our sales in Russia

The United States, the European Union, the United Nations, acting through the Security Council, Australia and a number of other countries and governmental organizations impose a variety of sanctions measures that limit parties’ ability to transact with certain persons, entities or organizations in Russia. Other sanctions imposed by these regulators target specific sectors of the Russian economy, such as the financial, energy, and defense sectors. These sanctions have been implemented for a number of reasons articulated by the sanctions regulators, including in response to Russia’s 2014 invasion of Ukraine, interference in the United States and other countries recent elections, malicious cyber-enabled activities, human rights abuses, use of a chemical weapon, weapons proliferation, illicit trade with North Korea, and support to Syria. The area known as Crimea, which is located in the area between Russia and Ukraine, is subject to very extensive sanctions implemented when it was deemed to be annexed by Russia in 2014. Comprehensive sanctions against Crimea were imposed by the United States, Canada, the European Union and other European countries that, among other things, prohibit the sale, supply, transfer, or export of goods and technology in several sectors, including services directly related to tourism and infrastructure. They also place various transportation restrictions on Crimea, including listing various ports where ships cannot dock.

During the Track Record Period, we made sales of our eyewear products, directly and indirectly, to certain customers located in Russia and Tunisia. We also made deliveries of our eyewear products to Russia with respect to sales to certain customers located in countries/regions not being subject to International Sanctions during the Track Record Period. Russia, in particular, has been subject to a variety of additional sanctions measures since its actions in Crimea were deemed to be illegal by the governments of many Western countries and various governmental organizations, including additional sanctions measures adopted by the United States in 2018. The United States government continues to consider implementing increased sanctions targeting Russia. Further, Russia has annexed the region of Crimea, which is located in between Russia and Ukraine, and considers it to be a part of the Russian Federation. The Crimea region is subject to comprehensive international sanctions. The revenue relating to sales and deliveries to Russia and Tunisia in aggregate was approximately HK\$5.5 million, HK\$5.5 million and HK\$3.6 million, respectively, representing approximately 1.7%, 1.5% and 0.8% of our total revenue for the years ended 31 December 2016, 2017 and 2018, respectively.

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## REGULATORY OVERVIEW

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Hogan Lovells, our International Sanctions Legal Advisers, performed the following procedures to evaluate our risk of exposure to penalties imposed under International Sanctions laws and regulations:

- (a) reviewed documents provided by us about our Group, our business operations, revenues, sales contracts and counterparty list in Russia and Tunisia, ownership structure and management;
- (b) reviewed our list of counterparties in Russia and Tunisia during the Track Record Period against the lists of persons and organisations subject to International Sanctions, and confirmed that they are not on such lists; and
- (c) received written confirmation from us that except as otherwise disclosed in this prospectus, neither our Group nor any of our affiliates (including any representative office, branch, subsidiary or other entity which forms part of our Group) conducted during the Track Record Period any business dealings in or with any other countries or persons that are subject to International Sanctions.

As advised by our International Sanctions Legal Advisers after performing the procedures set out above, our activities during the Track Record Period do not implicate restrictions under International Sanctions. Further, given the scope of our Share Offer and the expected use of proceeds as set out in this prospectus, our International Sanctions Legal Advisers are of the view that the involvement by parties in the Share Offer will not implicate any applicable International Sanctions on such parties, including our Company, our Company's investors, shareholders, the Stock Exchange and its listing committee and group companies, or any person involved in the Share Offer and accordingly, the sanction risk exposure to our Company, its investors and shareholders, and persons who might, directly or indirectly, be involved in permitting the listing, trading and clearing of our Company's shares (including the Stock Exchange, its listing committee and related group companies) is very low.

Our Directors confirm that we have not been notified of that any International Sanctions will be imposed on us for our sales and/or deliveries to the Countries subject to International Sanctions during the Track Record Period. The customers located in Russia and Tunisia are not specifically identified on the specially designated nationals and blocked persons list maintained by OFAC or other restricted parties lists maintained by the European Union, Australia and the United Nations and therefore would not be deemed as sanctioned targets. Such sales and/or deliveries do not involve industries or sectors that are currently subject to International Sanctions and therefore are not deemed to be prohibited activities under the relevant International Sanctions.

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## REGULATORY OVERVIEW

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### UNITED STATES LAWS AND REGULATIONS

During the Track Record Period, we have sold and delivered spectacle frames and sunglasses to the United States. Certain U.S. federal and state product safety laws and regulations and other laws and regulations may be applicable to our products sold to the United States. The laws, rules and regulations with the most significant impact on our operations are described below. However, other U.S. federal, state and local laws may also impose certain obligations on us and affect our products sold within the United States.

#### **Product liability laws**

Product liability regulations are not generally promulgated under U.S. federal law, but rather state law in the United States, most of which are based on common law. Although differences do exist, the vast majority of states have adopted similar laws that share common principles as discussed below. Parties involved in manufacturing, distributing or selling a product may be subject to liability for harm caused by a defect in that product. There are three types of product defects, namely, design defects, manufacturing defects and defects in marketing. Product liability claims may be based on negligence, strict liability or breach of warranty. In a negligence claim, a defendant may be held liable for personal injury or property damage caused by the failure to use due care. Strict liability claims, however, do not depend on the degree of carefulness by the defendant. A defendant is liable when it is shown that an injury (personal or to property) occurred as the result of a product's defect. Breach of warranty is also a form of strict liability in the sense that a showing of fault is not required. The plaintiff need only establish that the warranty was breached, regardless of how that came about. Companies that manufacture, distribute or sell a product in a particular state would fall under the jurisdiction of such state's product liability laws, whether the company's jurisdiction of incorporation or principal place of business is in that state, in another U.S. state or in a non-U.S. jurisdiction.

Finally, damages may also be recovered in product liability claims via tortious misrepresentation or fraud. This is similar to breach of warranty, in that such claims seek to hold a party liable for misrepresenting a material fact about the product which causes either damage or injury. Such claims may give rise not only to compensatory damages but also punitive or exemplary damages.

#### **Product safety laws**

The law of product safety is regulatory law and is governed primarily by the Consumer Product Safety Commission ("CPSC"), an administrative agency of the U.S. federal government that regulates certain classes of products sold to the public.

The Consumer Product Safety Improvement Act of 2008 ("CPSIA") was passed by Congress in 2008. The CPSIA constituted a significant overhaul of consumer product safety laws in the United States and was designed to enhance federal and state efforts to improve the safety of all products imported into and distributed in the United States. Products imported into the United States that fail to comply with CPSIA's requirements are subject to confiscation and the importer and/or distributor in the United States is subject to civil penalties and fines, as well as possible criminal prosecution. However, while the CPSC works closely with U.S. customs agents, its jurisdiction does not extend beyond the territorial limits of the United States.

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## REGULATORY OVERVIEW

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Under the CPSIA, a “general conformity certification” is required for any consumer product imported into the United States that is subject to a consumer product safety rule issued under the Consumer Product Safety Act (“CPSA”), or a similar rule, standard, regulation, or ban issued by the CPSC. The requirement applies to all manufacturers and importers of goods. Those parties must certify that their products comply with all applicable consumer product safety rules and similar rules, bans, standards, and regulations under any law administered by the CPSC. Such laws include the CPSA, Flammable Fabrics Act, Federal Hazardous Substance Act, and Poison Prevention Act.

### **Specific Non-prescription Sunglasses regulations**

#### ***Technical Requirements***

Non-prescription sunglasses, as technically described in 21 CFR Section 886.5850, are classified as Class I medical devices. They are regulated under the general controls of the FDA Modernization Act of 1997, and therefore are governed by the U.S. FDA. To ensure good manufacturing standards and product quality, the U.S. FDA has made a number of recommendations in relation to various critical, chemical, optical and toxicological properties, and to this end, has further recommended that all non-prescription sunglasses conform to a number of specifications, which are as set out below:

- a. **Impact Resistance:** The U.S. FDA requires that sunglasses be fitted with impact-resistant lenses, which must comply with FDA requirements set out in 21 CFR 801.410, Use of Impact Resistant Lenses in Eyeglasses and Sunglasses.
- b. **Flammability and Biocompatibility:** The U.S. FDA recommends that sunglasses be manufactured from finished materials that are non-flammable as defined in the Federal Hazardous Substances Act, and are non-toxic, non-irritating, and incapable of producing allergic reactions to a significant degree through normal use.
- c. **Optical Properties:** The U.S. FDA has further recommended that sunglasses be manufactured with plano-spectacle lenses, and also possess the optical characteristics or properties stated in its related labelling, advertising, or promotional materials.

Should any non-prescription sunglasses fail to comply with the above standards and regulations, they would be considered as adulterated devices, under Section 501(c) of the FDA Modernization Act.

#### ***Labelling Requirements***

As non-prescription sunglasses are generally considered, and marketed as over the counter medical devices, they are subject to both the general and the over the counter labelling requirements as outlined in Part 801 in the Code of Federal Regulation Title 21. However, in addition to these requirements, labels must be truthful, and not be false or misleading in any way. Under Section 502 of the FDA Modernization Act, any label that proves to be false or misleading in relation to the device it refers to, will cause the device itself to be considered misbranded.



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## REGULATORY OVERVIEW

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### **Federal Trade Commission Act**

The Federal Trade Commission Act (the “**FTC Act**”) broadly prohibits unfair or deceptive acts or practices in or affecting commerce. The Federal Trade Commission (“**FTC**”) will find deception if, either by the inclusion or exclusion of information, it is likely to mislead consumers acting reasonably under the circumstances, or affect the consumer’s choice or conduct, thereby leading to injury. The FTC Act allowed the FTC to enact several related acts and regulations intended to prohibit unfair or deceptive acts or practices.

### **Import regulations and anti-dumping**

Shipments of products to the United States are subject to customs inspection and compliance. The CBP, which is part of the U.S. Department of Homeland Security, is responsible for enforcing all laws and regulations on the importation of carriers and commodities. An importer of goods and commodities to the United States is responsible to exercise reasonable care to confirm that all information declared to the CBP is complete and accurate. Importers have the right to prepare and file a customs entry for goods that they import or hire a commercial broker licensed by CBP to file customs entries on their behalf.

The CBP requires all products imported into the United States to confirm to certain “Country of Origin Marking” regulations. These regulations require that every article of foreign origin (or its container) imported into the United States be marked in a conspicuous place as legibly, indelibly, and permanently as the nature of the article (or its container) will permit, in such a manner as to indicate to an ultimate purchaser in the United States, the English name of the country of origin of the article at the time of importation.

### *Import Tariffs*

The United States generally imposes tariffs on goods imported from most countries. General tariff rates are set forth in the Harmonised Tariff Schedules of the United States (the “**HTSUS**”). Our Company’s products appear to fall within Chapter 90 of the HTSUS. The goods must also bear markings of the country of origin which identify where the product is made. Note that embargoes, anti-dumping duties, countervailing duties, and other specific matters administered by the U.S. executive branch are not contained in the HTSUS and that various regulations or administrative actions could result in modification of these duties.

Section 201 of the Trade Act of 1974, 19 USC. § 2101 et. seq. (the “**Trade Act**”) permits the President of the United States to grant temporary import relief by raising import duties or imposing non-tariff barriers (e.g. quotas) on goods entering the United States that injure or threaten to injure domestic industries producing similar goods. Section 301 of the Trade Act authorises the President of the United States to take all appropriate action, including retaliation, to obtain the removal of any act, policy, or practice of a foreign government that violates an international trade agreement or is unjustified, unreasonable, or discriminatory, and that burdens or restricts U.S. commerce. The law does not require that the U.S. government wait until it receives authorisation from the World Trade Organisation to take enforcement actions.



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## REGULATORY OVERVIEW

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Starting from 24 September 2018, the U.S. government imposed 10% tariffs on certain products manufactured in the PRC listed on a schedule of products published by the Office of the U.S. Trade Representative on 17 September 2018 (the “**Product List**”), including aerospace, information and communication technology, robotics and machinery, among other items. Starting from 1 January 2019, the level of the tariffs imposed on these products was increased to 25%. Products sold by us to our customers in the United States during the Track Record Period are not on the Product List. However, if any products we manufacture or export to the United States become subject to the increased tariffs, it could increase the cost to our U.S. customers and thus make our products less competitive in the U.S. market. This could adversely impact our revenues from U.S. sales.

### *Anti-dumping Laws*

There are a range of trade laws in the United States which address the issue of imports which may injure or threaten U.S. industries. Under anti-dumping laws (Title VII of the Tariff Act of 1930), the U.S. International Trade Commission (“**USITC**”), conducts investigations into whether dumping or subsidisation is occurring in products brought into the U.S. market.

## REGULATIONS IN THE EUROPEAN UNION

During the Track Record Period, our products were exported overseas with shipment destinations in 36 countries, including the United Kingdom, France, Italy, the Netherlands and Hungary, the latter four countries of which are part of the European Union (“**EU**”). For the three years ended 31 December 2018, our revenue attributable to exports into Netherlands, Italy, United Kingdom, France and Hungary accounted for approximately 71.8%, 72.3% and 69.3% of our total revenue. Therefore, our sales to Netherlands, Italy, United Kingdom, France and Hungary are subject to the regulations and legislation of such jurisdictions and those relevant to our business are summarised in this section.

### **EU import duties**

#### *Custom duties*

The EU is a customs union with a common external tariff applicable to all goods entering the EU member states. The EU customs framework is set out in three key regulations: (i) Regulation (EU) No 952/2013; (ii) Commission Delegated Regulation No 2015/2446; and (iii) Commission Implementing Regulation No 2015/2447 (each as amended) (collectively referred to as the “**Union Customs Code**”).

The rules set out under the Union Customs Code are directly applicable in all EU member states. Under the Union Customs Code, the importation of goods into the EU is subject to the payment of relevant import value-added tax and customs duties. Excise duties may also be levied on import of certain products, in accordance with the framework set out in Council Directive 2008/118 EC (as amended). In addition, under certain circumstances, additional customs duties may be imposed under the EU’s anti-dumping and countervailing measures.

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## REGULATORY OVERVIEW

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The assessment of value-added tax and customs duties (including anti-dumping and countervailing duties, where applicable) and excise duties is undertaken by the relevant EU member state customs authority. No customs duties are levied on goods moving within the customs union. The Union Customs Code and its implementing legislation are directly applicable in all 28 EU member states. The Customs authorities of the EU member states are responsible for the application and enforcement of the EU customs law. In addition, the EU has enacted legislation to address unfair trade practices (i.e. anti-dumping and countervailing measures) pursuant to the WTO Anti-dumping and Anti-subsidy Agreements respectively.

### **Tariff and Non-tariff measures**

When declared to customs in the EU, goods must generally be classified according to the Combined Nomenclature (“CN”). Imported and exported goods have to be declared stating under which subheading of the nomenclature they fall. This determines the rate of customs duty applied and how the goods are treated for statistical purposes.

The CN comprises the international Harmonized System nomenclature with further community subdivisions. The Harmonized System is run by the World Customs Organization (“WCO”). This systematic list of commodities forms the basis for international trade negotiations, and is applied by most trading nations. The CN also includes preliminary provisions, additional section or chapter notes and footnotes relating to CN subdivisions. Each CN subdivisions has an eight digit code number, the CN code, followed by a description.

In addition to customs duties, imports into the EU have to fulfil health, safety, standard and other measures (the so-called non-tariff measures). Certain imports into the EU may also be subject to anti-dumping and anti-subsidy duties.

### **Product safety in the EU**

EU legislation aims to achieve a high level of product safety for the protection of consumers across all the member states of the EU.

### **General product safety, Directive 2001/95/EC (the “GPS Directive”)**

The GPS Directive applies to all EU member states and was required to be implemented into member state national law by 15 January 2004. The provisions of the GPS Directive apply to all consumer products subject to product-specific requirements that may be applicable under separate legislation. On 13 February 2013, the European Commission adopted proposals to improve product safety in the EU, which consist of, inter alia, a proposal for a regulation on Consumer Product Safety, which would replace the existing GPS Directive. Among others, the proposed regulations introduce a mandatory requirement on manufacturers and importers of consumer products to include information about the product’s origin on the packaging of the product. The proposals are currently going through the EU’s legislative procedure for adoption.

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## REGULATORY OVERVIEW

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The GPS Directive requires that producers must only put products on the market that are safe, having regard to the product's composition, packaging, labelling, warnings and instructions for use. Producers and distributors also have obligations to take corrective actions in respect of products posing a safety risk that have already been placed on the EU market.

The responsibility for ensuring safety of products on the EU market lies with the manufacturer of the product, or where the manufacturer is not based in the EU, its representative in the EU (if applicable) or the importer.

### **Non-prescription sunglasses and spectacles frames – EU Regulation on personal protective equipment 2016/425 (“EU Regulation 2016/425”)**

General requirements for personal protective equipment, which includes non-prescription sunglasses, are laid down in the EU Regulation 2016/425, which repealed the previous EU PPE (Personal Protective Equipment) Directive 89/686/EEC. Further general requirements relevant to frames for spectacles are also contained in the Medical Devices Directive 93/42/EEC. Compliance with EU Regulation 2016/425, the Medical Devices Directive 93/42/EEC as well as any and all relevant legislation is declared by the affixing of the CE marking, and the declaration of conformity. In addition, various international and EU specific specifications, which include but are not limited to EN 12870:2018, EN 166:2001, EN 167:2001, EN 16128:2015, and EN ISO 12312-1:2013+A1:2015, set out specific requirements as to the composition and safety of non-prescription sunglasses.

### **The sale of consumer goods and associated guarantees (“Directive 1999/44/EC”)**

Directive 1999/44/EC, which was required to be implemented in the member states by 1 January 2002, applies to the sale of goods to consumers within the EU. Directive 1999/44/EC guarantees consumers a minimum level of protection with respect to remedies in the event of non-conformity of a product with the sale contract at the time of delivery.

### **Consumer Rights Directive 2011/83/EU (“Consumer Rights Directive”)**

The Consumer Rights Directive was required to be implemented by member states by 13 December 2013 and applies to contracts concluded after 13 June 2014. The Consumer Rights Directive relates to contracts between traders and consumers on the sale of goods, services and online digital content including giving consumers cancellation rights for distance and off premises contracts.

### **Liability for defective products (“Directive 85/374/EEC”)**

Directive 85/374/EEC, which was required to be implemented into national law by July 1988, states that producers of consumer products are liable to consumers for damage caused by defects in their products. Directive 85/374/EEC defines damages as death, personal injury or damage to any item of property (other than the defective property itself), and the parties that may be liable under such directive include the manufacturer of the finished product or any components; any person who presents himself as the producer (such as by placing his name or trademark on the product); and any person who imports the product into the EU for sale or distribution.

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## REGULATORY OVERVIEW

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### Other Consumer Protection Directives

Apart from the above directives, other consumer protection directives include:

- Misleading and Comparative Advertising Directive (2006/114/EC) which regulates the advertisement of goods or services either expressly or impliedly by reference to those offered by a competitor;
- Privacy and Electronic Communications Directive (2002/58/EC) which regulates the processing of personal data relating to the delivery of communications services;
- E-Commerce Directive (2000/31/EC) which sets up an internal market framework for electronic commerce by removing obstacles to cross-border online services in the EU internal market and enhancing competitiveness of European service providers; and
- General Data Protection Regulation (2016/679) which regulates the processing and storage of personal data, as well as the general access to data by data subjects.

### Civil Liability

In addition to regulatory liability, there may also be civil claims in both contract (for breach of an implied term of the sale contract for not supplying a product of adequate quality) and tort (such as negligence for personal injury or property damage) in respect of product liability/safety and consumer protection.

### Anti-dumping in the EU

Pursuant to the Regulation (EU) 2016/1036 of 8 June 2016 (“**Basic Anti-dumping Regulation**”), the European Commission is responsible for investigating allegations of dumping within the EU. It usually conducts an investigation upon receipt of a complaint from producers of the product within the EU.

These measures are usually ad valorem duties payable by the importer in the respective EU importing countries. In certain instances, the European Commission may accept an “undertaking” by which the exporter agrees to increase its export prices of the products concerned.

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## HISTORY, REORGANISATION AND GROUP STRUCTURE

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### OVERVIEW

Our history can be traced back to 1986 where Kelfred was co-founded by Mr. Kwok and an Independent Third Party with their personal wealth. Since August 2005, our Group was owned by Mrs. Kwok, Mr. Joe Kwok and Mr. Ken Kwok.

At the commencement of operation, Kelfred was principally engaged in trading of eyewear products. Leveraging on its experience and established networks in the eyewear industry, our Group started to design and manufacture eyewear products on OEM and ODM basis in 2013 with the setting up of the Shenzhen Production Base with three production lines. To enhance our production capacity for coping with increasing market demand, we established the Jiangxi Production Base in 2016 with three production lines. In the same year, we started to develop our products on OBM basis and launched our own brand of “miga” eyewear products to enlarge our market share and solidify our competitive position.

As at the Latest Practicable Date, we are an established eyewear manufacturer with our headquarter in Hong Kong and production bases in Shenzhen and Jiangxi, the PRC.

### MAJOR MILESTONES OF OUR GROUP

Set forth below is a chronological review of the key business milestones of our Group:

Milestone year	Event
1986	Kelfred was incorporated in Hong Kong and commenced its operation in trading of eyewear products
2009	Our Group commenced the sale of products to Specsavers
2011	Our Group commenced the sale of products to Marcolin
2013	Our Group commenced its operation in Shenzhen Production Base
2014	Our Group commenced the sale of products to Customer A
2016	Our Group commenced its operation in Jiangxi Production Base
	Our Group commenced offering our OBM products under the brand “miga”
	Our Group commenced the sale of products to Customer D
	Our Group was accredited by Q.A. International Certification Limited with (i) ISO 9001:2008; and (ii) ISO 14001:2004

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## HISTORY, REORGANISATION AND GROUP STRUCTURE

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2017	Jiangxi Huaqing was accredited by China Quality Mark Certification Group with (i) GB/T 19001-2016/ISO 9001:2015; (ii) GB/T 24001-2016/ISO 14001:2015; and (iii) GB/T 28001-2011/OHSAS 18001:2007
2019	Shenzhen Hua Qing was accredited by Shanghai Kaicheng Certification Co., Ltd. with (i) GB/T 19001-2016/ISO 9001:2015; and (ii) GB/T 24001-2016/ISO 14001:2015 and Shenzhen Zhongbiao International Testing and Certification Co., Ltd. with GB/T 28001-2011/OHSAS 18001:2007

### CORPORATE HISTORY

Our Group consists of our Company and seven subsidiaries. Set out below is the corporate history of each of our Company and our subsidiaries.

#### Our Company

On 20 April 2018, our Company was incorporated in the Cayman Islands with an authorised share capital of HK\$390,000 divided into 39,000,000 Shares of HK\$0.01 each, of which one Share was allotted and issued as fully paid to an independent initial subscriber at par. On the same date, such subscriber's Share was transferred to Conquer for cash at par and the said share transfer was properly and legally completed on the same date.

Following completion of the Reorganisation, our Company became the holding company of our subsidiaries and all the issued Shares were held by Conquer. For details of the Reorganisation, please refer to the paragraph headed "Reorganisation" below in this section.

#### Fame Investment

Fame Investment was incorporated in the BVI on 10 April 2018 as a limited liability company authorised to issue a maximum of 50,000 shares of US\$1 each, of which two, 49 and 49 shares were allotted and issued as fully paid to Mrs. Kwok, Mr. Joe Kwok and Mr. Ken Kwok at par respectively on the same date.

On 20 June 2019, as part of the Reorganisation, Mrs. Kwok, Mr. Joe Kwok and Mr. Ken Kwok entered into a sale and purchase agreement with our Company pursuant to which, Mrs. Kwok, Mr. Joe Kwok and Mr. Ken Kwok respectively transferred two, 49 and 49 shares of Fame Investment to our Company in consideration of, at the direction and request of Mrs. Kwok, Mr. Joe Kwok and Mr. Ken Kwok, our Company allotting and issuing in aggregate 100 new Shares of our Company to Conquer, all credited as fully paid in the capital of our Company. As a result, Fame Investment became a wholly-owned subsidiary of our Company.

As at the Latest Practicable Date, Fame Investment was an intermediate holding company of our Group and directly held the entire issued share capital of Kelfred, Optical Farm and 50% of the entire issued share capital of Central Designs and indirectly held the entire equity capital of Shenzhen Hua Qing, Jiangxi Huaqing and Ying Tan.

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## HISTORY, REORGANISATION AND GROUP STRUCTURE

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### **Kelfred**

On 8 April 1986, Kelfred was incorporated in Hong Kong as a limited liability company with an authorised share capital of HK\$100,000 divided into 100,000 ordinary shares of HK\$1 each, of which one share was issued to each of Mr. Kwok and an Independent Third Party.

From August 1987 to August 2005, there were various increases in the authorised share capital and various transfers of shares of Kelfred and since 15 August 2005, Kelfred was owned by Mrs. Kwok, Mr. Joe Kwok and Mr. Ken Kwok as to approximately 32.7%, 53.8% and 13.5% respectively. On 30 September 2016, in light of the funding needs for operation of our Group, 663,000 and 837,000 new shares were legally and properly allotted and issued to Mr. Joe Kwok and Mr. Ken Kwok respectively at par. The proceeds of HK\$1,500,000 from such allotment and issue were used as general working capital. As a result, Kelfred was owned as to 16.3%, 49% and 34.7% by Mrs. Kwok, Mr Joe Kwok and Mr. Ken Kwok respectively.

On 24 February 2017, due to family arrangement between Mrs. Kwok and Mr. Ken Kwok, Mrs. Kwok transferred 430,000 shares to Mr. Ken Kwok at par and such transfer was properly and legally completed on 27 February 2017. As a result, Kelfred was owned as to 2% by Mrs. Kwok, 49% by Mr. Joe Kwok and 49% by Mr. Ken Kwok.

On 17 May 2018, as part of the Reorganisation, Mrs. Kwok, Mr. Joe Kwok and Mr. Ken Kwok (as vendors) entered into a sale and purchase agreement with Fame Investment (as purchaser), pursuant to which Mrs. Kwok, Mr. Joe Kwok and Mr. Ken Kwok together transferred the entire issued share capital of Kelfred to Fame Investment at the respective consideration of HK\$2, HK\$49 and HK\$49. The said transfers were properly and legally completed on 28 May 2018. As a result, Kelfred became a wholly-owned subsidiary of Fame Investment.

Kelfred has commenced its business since its incorporation date and as at the Latest Practicable Date, Kelfred was engaged in investment holding and trading and design of eyewear products.

### **Optical Farm**

Optical Farm was incorporated in Hong Kong with limited liability on 10 December 2015. On 10 December 2015, one share of Optical Farm was allotted and issued to an Independent Third Party, who legally and properly transferred the same to Mr. Joe Kwok on 23 December 2015. On 24 December 2015, additional 9,999 and 10,000 shares of Optical Farm were legally and properly allotted and issued to Mr. Joe Kwok and Mr. Ken Kwok respectively. As a result, Optical Farm was owned as to 50% by Mr. Joe Kwok and 50% by Mr. Ken Kwok.

On 15 May 2018, as part of the Reorganisation, Mr. Joe Kwok and Mr. Ken Kwok (as vendors) entered into a sale and purchase agreement with Fame Investment (as purchaser), pursuant to which each of Mr. Joe Kwok and Mr. Ken Kwok respectively transferred his 10,000 shares of Optical Farm to Fame Investment at the consideration of HK\$1. The said transfers were properly and legally completed on 17 May 2018. As a result, Optical Farm became a wholly-owned subsidiary of Fame Investment.



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## HISTORY, REORGANISATION AND GROUP STRUCTURE

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Optical Farm has commenced its business since its incorporation date and as at the Latest Practicable Date, Optical Farm was engaged in design and sales of its own brand of eyewear products.

### Central Designs

Central Designs was incorporated in Hong Kong with limited liability on 3 September 2014. On 3 September 2014, one share of Central Designs was allotted and issued to an Independent Third Party, who legally and properly transferred the same to Mr. Joe Kwok on 12 September 2014. On 11 November 2014, additional 119,999 and 120,000 shares of Central Designs were legally and properly allotted and issued to Mr. Joe Kwok and Mr. Russell respectively. As a result, Central Designs was owned as to 50% by Mr. Joe Kwok and 50% by Mr. Russell.

On 15 May 2018, as part of the Reorganisation, Mr. Joe Kwok (as vendor) entered into a sale and purchase agreement with Fame Investment (as purchaser), pursuant to which Mr. Joe Kwok transferred 120,000 shares of Central Designs, representing 50% of the issued share capital of Central Designs, to Fame Investment at the consideration of HK\$1. The said transfer was properly and legally completed on 20 June 2018. As a result, Central Designs was owned as to 50% by Fame Investment and 50% by Mr. Russell. Fame Investment and Mr. Russell entered into a shareholders' agreement with Central Designs on 15 May 2018 pursuant to which the number of directors of Central Designs shall not exceed two and each of Fame Investment and Mr. Russell shall have the right to appoint and remove up to one director. Further, Mr. Joe Kwok was appointed as the chairman of the board of directors and general meetings of Central Designs and is entitled to have a casting vote in the case of an equality of vote at board meetings and/or general meetings of Central Designs. No board meeting and general meeting may proceed to business nor transact any business unless Mr. Joe Kwok or any other director appointed by him to act in place of him is present. As such, the financial results of Central Designs will be consolidated into the consolidated financial statement of our Group. For details, please refer to note 5 to our consolidated financial statements included in the Accountants' Report in Appendix I to this prospectus.

Central Designs has commenced its business since its incorporation date and as at the Latest Practicable Date, Central Designs was engaged in trading of eyewear products.

### Shenzhen Hua Qing

Shenzhen Hua Qing was established in the PRC on 6 April 2005 as a limited liability company with a registered capital of HK\$1,000,000 which was wholly-owned by an Independent Third Party. The registered capital of Shenzhen Hua Qing was subsequently increased and contributed by such Independent Third Party from HK\$1,000,000 to HK\$2,560,000 and the legal proceeding of such increase was completed on 25 May 2007.

On 25 March 2013, as our Group planned to design and manufacture eyewear products in the PRC, Mrs. Kwok (as purchaser) acquired the entire equity interest in Shenzhen Hua Qing from such Independent Third Party at the cash consideration of HK\$2,560,000 which was equivalent to the amount of registered capital of Shenzhen Hua Qing at that time. The legal procedure for the said transfer was completed and the consideration was settled on 25 April 2013. As a result, Shenzhen Hua Qing was wholly-owned by Mrs. Kwok.



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## HISTORY, REORGANISATION AND GROUP STRUCTURE

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On 5 February 2015, the registered capital of Shenzhen Hua Qing was increased by HK\$6,000,000 from HK\$2,560,000 to HK\$8,560,000. The additional registered capital of HK\$2,999,750 and HK\$3,000,250 were contributed in cash on 16 April 2015 and 14 May 2015, respectively. The legal procedure for such increase of registered capital was completed on 12 February 2015.

On 21 March 2018, due to the funding needs for operation of our Group, the registered capital of Shenzhen Hua Qing was further increased by HK\$50,000,000 from HK\$8,560,000 to HK\$58,560,000. The additional registered capital was contributed in cash by Mrs. Kwok as to HK\$6,000,000 on 27 April 2018, HK\$6,000,000 on 21 May 2018 and by Kelfred as to HK\$3,499,750 on 6 November 2018 and HK\$2,500,250 on 19 December 2018, and the balance in the amount of HK\$32,000,000 will be contributed in cash by Kelfred by 31 December 2020, which is the latest date of contribution as required by the PRC authority, unless extension is granted. The additional registered capital of HK\$18,000,000 contributed was used as general working capital. The legal procedure for such increase of registered capital was completed on 4 April 2018. The shareholding of Shenzhen Hua Qing remained unchanged after the aforesaid increase.

As part of the Reorganisation, Kelfred (as purchaser) and Mrs. Kwok (as vendor) entered into an equity transfer agreement dated 26 June 2018 and a supplemental equity transfer agreement dated 25 July 2018, whereby Kelfred acquired from Mrs. Kwok her entire equity interest in Shenzhen Hua Qing at the consideration of HK\$22,095,000 which was equivalent to the net asset value of Shenzhen Hua Qing as at 26 June 2018, and was satisfied by way of the issue and allotment of 100 new shares of Kelfred to Fame Investment, credited as fully paid in the capital of Kelfred on 25 July 2018. The legal procedure for the said transfer was completed on 10 July 2018. As a result, Shenzhen Hua Qing became a wholly-owned subsidiary of Kelfred.

Shenzhen Hua Qing has commenced to manufacture eyewear products since 25 April 2013 and as at the Latest Practicable Date, Shenzhen Hua Qing was engaged in manufacturing of eyewear products.

### **Jiangxi Huaqing**

Jiangxi Huaqing was established in the PRC on 31 May 2016 as a limited liability company with a registered capital of US\$2,000,000 which was owned as to 50% by each of Mr. Joe Kwok and Mr. Ken Kwok. The registered capital of US\$2,000,000 was determined in view of the actual funding needs for business expansion. Jiangxi Huaqing applied such contribution of US\$2,000,000 on the establishment and development of the Jiangxi Production Base in Jiangxi, the PRC.

On 20 June 2017, due to the funding needs for operation and business expansion of our Group, the registered capital was increased by US\$2,000,000 from US\$2,000,000 to US\$4,000,000. The additional registered capital of US\$1,000,000, US\$500,000 and US\$500,000 were contributed in cash on 26 June 2017, 21 November 2017 and 20 December 2017 respectively. The additional registered capital of US\$2,000,000 was used as capital expenditure and general working capital. The legal procedure for such increase of registered capital was completed on 21 June 2017. The shareholding of Jiangxi Huaqing remained unchanged after the aforesaid increase.

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## HISTORY, REORGANISATION AND GROUP STRUCTURE

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On 22 December 2017, the registered capital of Jiangxi Huaqing was further increased by US\$500,000 from US\$4,000,000 to US\$4,500,000. The additional registered capital is required to be contributed in cash on or before 31 December 2020, which is the latest date of contribution as required by the PRC authority, unless extension is granted. The legal procedure for such increase of registered capital was completed on 29 December 2017. The shareholding of Jiangxi Huaqing remained unchanged after the aforesaid increase.

On 3 July 2018, as part of the Reorganisation, Kelfred (as purchaser) entered into an equity transfer agreement with each of Mr. Joe Kwok and Mr. Ken Kwok (as vendors) respectively pursuant to which Kelfred acquired 50% equity interest of Jiangxi Huaqing from each of Mr. Joe Kwok and Mr. Ken Kwok at nil consideration. The legal procedure for the said transfers was completed on 19 July 2018. As a result, Jiangxi Huaqing became a wholly-owned subsidiary of Kelfred.

Jiangxi Huaqing has commenced its business since its incorporation date and as at the Latest Practicable Date, Jiangxi Huaqing was engaged in manufacturing of eyewear products.

### **Ying Tan**

Ying Tan was established in the PRC on 31 May 2016 as a limited liability company with a registered capital of US\$2,000,000 which was owned as to 50% by each of Mr. Joe Kwok and Mr. Ken Kwok. The registered capital of US\$2,000,000 was contributed in view of the funding needs and Ying Tan used such contribution of US\$2,000,000 for the development and establishment of the Jiangxi Production Base in Jiangxi, the PRC.

On 3 July 2018, as part of the Reorganisation, Kelfred (as purchaser) entered into an equity transfer agreement with each of Mr. Joe Kwok and Mr. Ken Kwok (as vendors) respectively pursuant to which Kelfred acquired 50% equity interest of Ying Tan from each of Mr. Joe Kwok and Mr. Ken Kwok at nil consideration. The legal procedure for the said transfers was completed on 19 July 2018. As a result, Ying Tan became a wholly-owned subsidiary of Kelfred.

Since its incorporation date, Ying Tan has been engaged in properties holding.

### **PARTIES ACTING IN CONCERT**

Mr. Kwok, Mrs. Kwok, Mr. Joe Kwok and Mr. Ken Kwok are family members. Over the course of the business operation of our Group, Mr. Kwok, Mrs. Kwok, Mr. Joe Kwok and Mr. Ken Kwok were/are either the legal or ultimate beneficial owners of the shares of our Company, Fame Investment, Kelfred, Optical Farm, Central Designs, Shenzhen Hua Qing, Jiangxi Huaqing and Ying Tan (the “**Group Companies**”).

Although Mr. Kwok ceased to be a shareholder of Kelfred in June 1995, he remained to be a director of Kelfred. Mr. Kwok has also been a non-executive Director of our Company since 21 May 2018. Mr. Kwok does not hold any legal interest in our Company on his own but he is deemed to be interested in the interest of the Shares held by Mrs. Kwok under the SFO.

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## HISTORY, REORGANISATION AND GROUP STRUCTURE

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In making and implementing key decisions regarding the finance, management and operation of the Group Companies, each of Mr. Kwok, Mrs. Kwok, Mr. Joe Kwok and Mr. Ken Kwok has been acting in concert with one another to exert management influence on the operation and management of our Group as a controlling group and ensure that the businesses of the Group Companies are heading to a direction consistent with the overall business strategy of our Group. Each of Mr. Kwok, Mrs. Kwok, Mr. Joe Kwok and Mr. Ken Kwok has confirmed that the concert party arrangements with respect to each of the Group Companies had become effective since they were legal or beneficial owners of the shares and/or the directors of the relevant Group Companies.

On 3 January 2019, in preparation of the Listing, Mr. Kwok, Mrs. Kwok, Mr. Joe Kwok and Mr. Ken Kwok executed the Concert Parties Confirmatory Deed, whereby they confirmed the existence of their concert party arrangements in the past, as well as their intention to continue to act in the above manner upon the Listing to consolidate their control of the Group Companies. According to the Concert Parties Confirmatory Deed, each of Mr. Kwok, Mrs. Kwok, Mr. Joe Kwok and Mr. Ken Kwok confirms and undertakes that should he/she remain as the management and/or hold shareholding interest of any member of our Group (the “**Relevant Companies**”):

- (a) they shall continue to act in concert and collectively discuss all major management issues and make and/or execute all commercial decisions, including but not limited to the finance and operation of the Relevant Companies;
- (b) they shall continue to give unanimous consent, approval or rejection on any other material issues and decisions in relation to the business of the Relevant Companies;
- (c) they shall continue to cast unanimous vote collectively for or against all resolutions in all meetings (including directors’ and shareholders’ meetings) and discussion of the Relevant Companies; and
- (d) they shall continue to cooperate with each other to obtain and maintain the consolidated control and the management of the Relevant Companies.

Hence, pursuant to the Concert Parties Confirmatory Deed, Mrs. Kwok, Mr. Joe Kwok and Mr. Ken Kwok will together be entitled to exercise and control 75% of our entire issued share capital upon completion of the Capitalisation Issue and the Share Offer (without taking into account the Shares which may be allotted and issued upon the exercise of any options which may be granted under the Share Option Scheme) and are regarded as a group of Controlling Shareholders for the purposes of the Listing Rules.



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## HISTORY, REORGANISATION AND GROUP STRUCTURE

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- (3) On 27 March 2018, Mr. Joe Kwok and Mr. Ken Kwok (as vendors) entered into a sale and purchase agreement with Mrs. Kwok (as purchaser), pursuant to which each of Mr. Joe Kwok and Mr. Ken Kwok transferred 100 shares of Conquer to Mrs. Kwok at the consideration of US\$1. Following completion of the above transfers of shares, Conquer was owned as to 2%, 49% and 49% by Mrs. Kwok, Mr. Joe Kwok and Mr. Ken Kwok respectively.
- (4) On 10 April 2018, Fame Investment was incorporated in the BVI with limited liability. Fame Investment was authorised to issue a maximum of 50,000 shares of US\$1 each, of which two, 49 and 49 shares were allotted and issued fully paid to Mrs. Kwok, Mr. Joe Kwok and Mr. Ken Kwok at par respectively on the same date.
- (5) On 20 April 2018, our Company was incorporated in the Cayman Islands with limited liability with an authorised share capital of HK\$390,000 divided into 39,000,000 Shares of HK\$0.01 each, of which one Share was allotted and issued fully paid to an initial subscriber, which is an Independent Third Party, at par. On the same date, such subscriber's Share was transferred to Conquer for cash at par and the said share transfer was properly and legally completed on the same date.
- (6) On 15 May 2018, Mr. Joe Kwok and Mr. Ken Kwok (as vendors) entered into a sale and purchase agreement with Fame Investment (as purchaser) pursuant to which each of Mr. Joe Kwok and Mr. Ken Kwok transferred 10,000 shares of Optical Farm to Fame Investment at the consideration of HK\$1. The said transfers were properly and legally completed on 17 May 2018.
- (7) On 15 May 2018, Mr. Joe Kwok (as vendor) entered into a sale and purchase agreement with Fame Investment (as purchaser), pursuant to which Mr. Joe Kwok transferred 120,000 shares of Central Designs, representing 50% of the issued share capital of Central Designs, to Fame Investment at the consideration of HK\$1. The said transfer was properly and legally completed on 20 June 2018.
- (8) On 17 May 2018, Mrs. Kwok, Mr. Joe Kwok and Mr. Ken Kwok (as vendors) entered into a sale and purchase agreement with Fame Investment (as purchaser) pursuant to which Mrs. Kwok, Mr. Joe Kwok and Mr. Ken Kwok respectively transferred 60,000 shares, 1,470,000 shares and 1,470,000 shares of Kelfred to Fame Investment at the respective consideration of HK\$2, HK\$49 and HK\$49. The said transfers were properly and legally completed on 28 May 2018.

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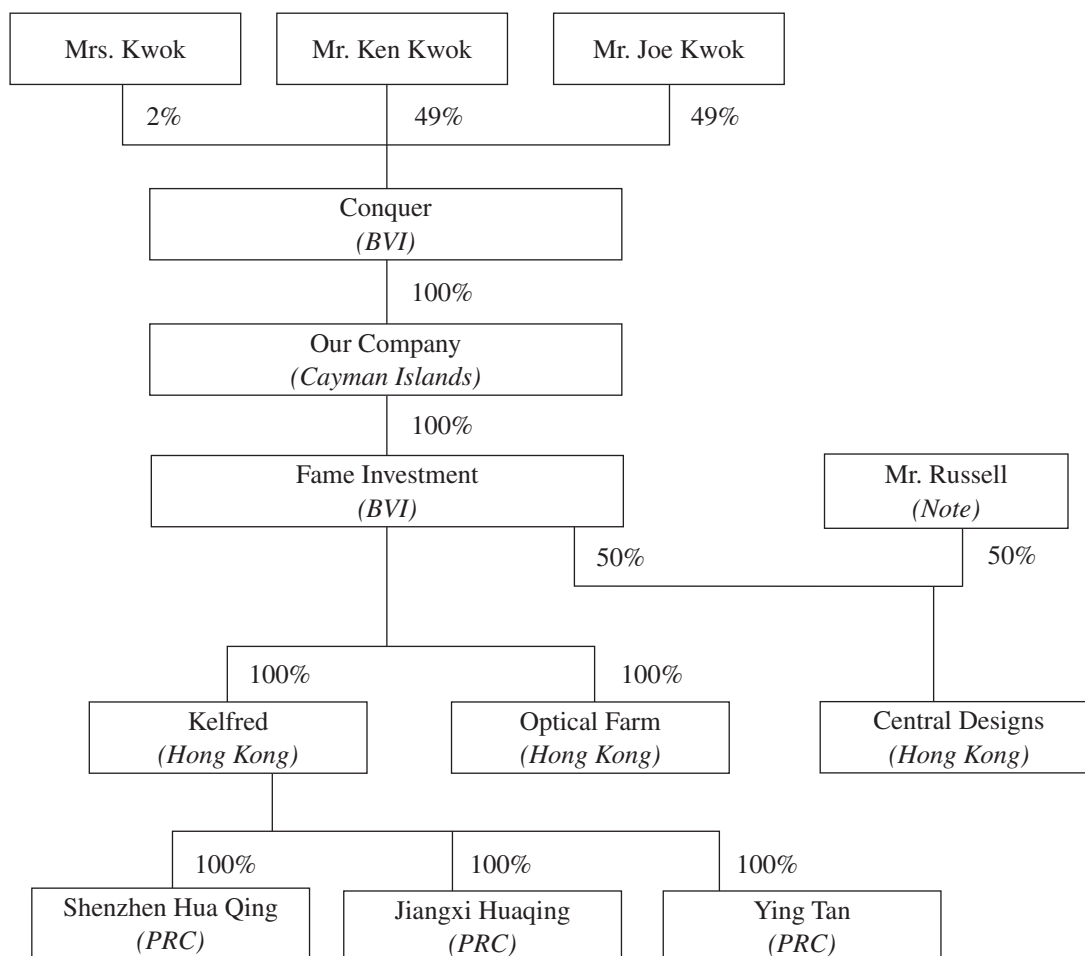
## HISTORY, REORGANISATION AND GROUP STRUCTURE

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- (9) Kelfred (as purchaser) and Mrs. Kwok (as vendor) entered into an equity transfer agreement dated 26 June 2018 and a supplemental equity transfer agreement dated 25 July 2018 pursuant to the two agreements Kelfred acquired from Mrs. Kwok her entire equity interest in Shenzhen Hua Qing at the consideration of HK\$22,095,000, and was satisfied by way of the issue and allotment of 100 new shares of Kelfred to Fame Investment, credited as fully paid in the capital of Kelfred on 25 July 2018. The legal procedure for the said transfer was completed on 10 July 2018.
- (10) On 3 July 2018, Kelfred (as purchaser) entered into an equity transfer agreement with Mr. Joe Kwok (as vendor), pursuant to which Kelfred acquired from Mr. Joe Kwok 50% equity interest in Jiangxi Huaqing at nil consideration. The legal procedure for the said transfer was completed on 19 July 2018.
- (11) On 3 July 2018, Kelfred (as purchaser) entered into an equity transfer agreement with Mr. Ken Kwok (as vendor), pursuant to which Kelfred acquired from Mr. Ken Kwok 50% equity interest in Jiangxi Huaqing at nil consideration. The legal procedure for the said transfer was completed on 19 July 2018.
- (12) On 3 July 2018, Kelfred (as purchaser) entered into an equity transfer agreement with Mr. Joe Kwok (as vendor), pursuant to which Kelfred acquired from Mr. Joe Kwok 50% equity interest in Ying Tan at nil consideration. The legal procedure for the said transfer was completed on 19 July 2018.
- (13) On 3 July 2018, Kelfred (as purchaser) entered into an equity transfer agreement with Mr. Ken Kwok (as vendor), pursuant to which Kelfred acquired from Mr. Ken Kwok 50% equity interest in Ying Tan at nil consideration. The legal procedure for the said transfer was completed on 19 July 2018.
- (14) On 20 June 2019, our Company (as purchaser) entered into a sale and purchase agreement with Mrs. Kwok, Mr. Joe Kwok and Mr. Ken Kwok (as vendors) pursuant to which our Company acquired from Mrs. Kwok, Mr. Joe Kwok and Mr. Ken Kwok two, 49 and 49 shares of Fame Investment respectively in consideration of our Company (at the direction and request of Mrs. Kwok, Mr. Joe Kwok and Mr. Ken Kwok) in aggregate allotting and issuing 100 new Shares of our Company to Conquer, all credited as fully paid in the capital of our Company. The said transfers were legally completed on 20 June 2019.

## HISTORY, REORGANISATION AND GROUP STRUCTURE

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

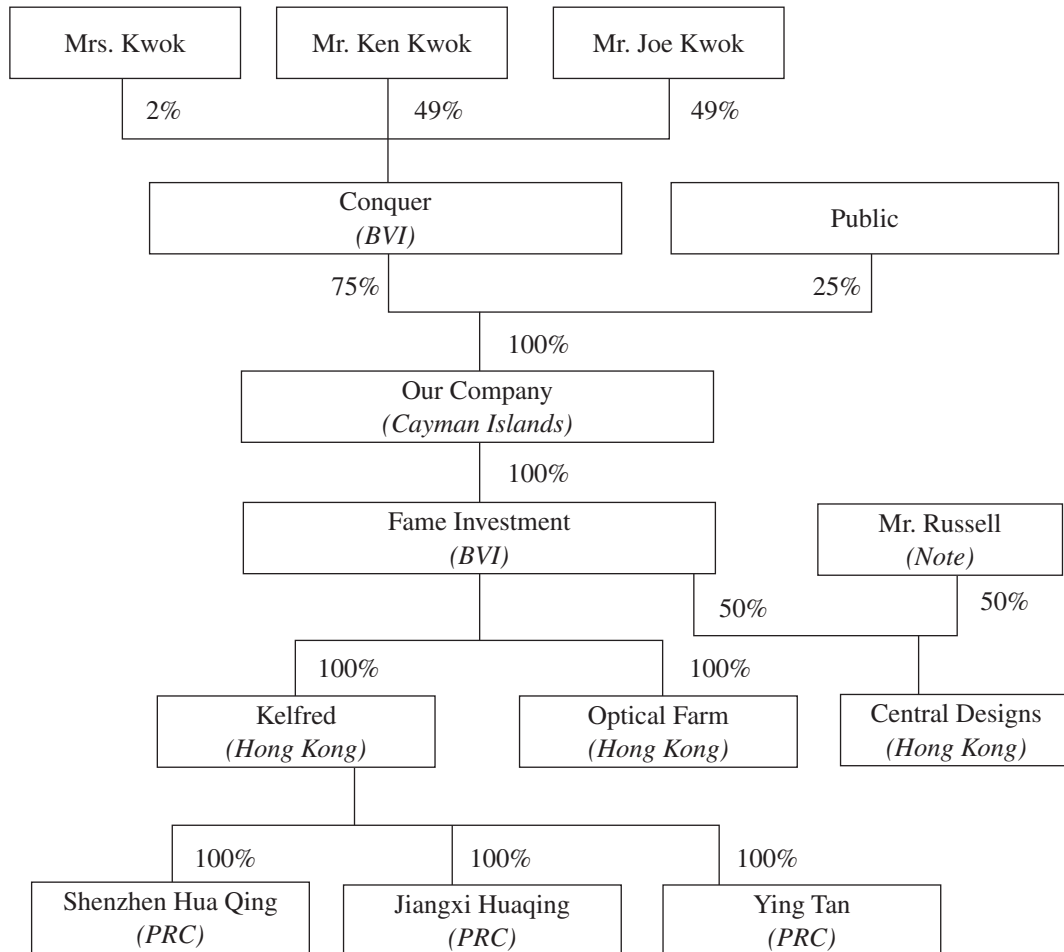


*Note: Mr. Russell is a director and shareholder of Central Designs.*

Conditional upon the share premium account of our Company being credited as a result of the Share Offer, an amount standing to the credit of the share premium account of our Company will be capitalised and applied in paying up in full 374,999,899 Shares at par for allotment and issue to Conquer, to enable it to maintain its aggregate shareholding in our Company at a percentage of 75% of the enlarged issued share capital of our Company (without taking into account any Shares which may be allotted and issued upon the exercise of any options which may be granted under the Share Option Scheme).

## HISTORY, REORGANISATION AND GROUP STRUCTURE

The following chart shows the shareholding structure of our Group immediately after the Capitalisation Issue and the Share Offer (without taking into account any Shares which may be allotted and issued pursuant to the exercise of any options which may be granted under the Share Option Scheme):



*Note: Mr. Russell is a director and shareholder of Central Designs.*



### OVERVIEW

Founded in 1986, we are an established eyewear manufacturer in the PRC and Hong Kong that produce and sell a wide range of spectacle frames and sunglasses mainly through ODM and OEM business models. Our integrated and customised services offering include product design and development, raw materials procurement, production, quality control, packaging and delivery.

We pride ourselves on our broad network of renowned and trusted customers worldwide (who are primarily international eyewear retailers, trading companies and licensed brand owners). Leveraging on our over 30 years of experience in the eyewear industry, we have produced quality eyewear products under our customers' designated brand names and sold the same to 36 countries during the Track Record Period, including but not limited to Netherlands, Italy, United Kingdom and the United States, and our sales covered all the top ten spectacle frame importing countries around the globe in 2018 in terms of trade value according to the Frost & Sullivan Report. In particular, our sales to Europe in aggregate accounted for over 65% of our revenue for each of the years ended 31 December 2016, 2017 and 2018, respectively.

Through our dealings over the years, we have developed our business from trading into manufacturing and sale of quality eyewear products. We established our first major production base, namely our Shenzhen Production Base, in Shenzhen, the PRC in 2013. In order to capture the growing business opportunities in the eyewear market and to support and accommodate our business expansion, we set up our second and self-owned production base, namely our Jiangxi Production Base, in Jiangxi, the PRC in 2016. With the production facilities in our two production bases, our Group is capable of manufacturing eyewear products of various dimensions and specifications as required by our customers. We also engaged subcontractors in the PRC to manufacture products and perform certain production steps at their facilities for us from time to time during the Track Record Period with the consent of our customers. During the Track Record Period, we manufactured a diversified product portfolio of over 3,200 kinds of spectacle frames and sunglasses in aggregate.

In addition to the traditional OEM business model whereby we manufacture eyewear based on the designs and specifications provided by our customers, we differentiate ourselves from other manufacturers by also offering design-driven ODM products to our customers. For our ODM business, we undertake the design and development of eyewear products ourselves, based on either our own design plans or design concepts provided by our customers, and then manufacture the eyewear products under the brand names designated by our customers pursuant to the purchase orders received. We believe that with our strong design and development capabilities as well as the market intelligence and insights acquired through our cooperations with customers around the globe, we are able to adjust our design and development efforts in a timely manner and continuously introduce product designs that capture the latest market trend and development.

With our strong experience in the eyewear industry and our extensive sales network around the globe, our Directors are of the view that the development and sales of our own branded products would be conducive to our long-term development and growth as these may enhance our brand visibility and awareness and market position. As such, we mobilised our design capabilities and commenced offering our OBM products under the brand “miga” in 2016. We believe that with the development and expansion of our OBM business and product portfolio, we will be able to diversify our revenue streams, enlarge our customer base and solidify our competitive position.

## BUSINESS

The following table sets forth a breakdown of our revenue by product category and its percentage in terms of our total revenue during the Track Record Period:

	For the year ended 31 December					
	2016		2017		2018	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Spectacle frames	286,533	90.1	288,893	79.7	341,503	81.1
Sunglasses	29,756	9.4	71,221	19.6	77,754	18.5
Spare parts	1,707	0.5	2,661	0.7	1,837	0.4
<b>Total</b>	<b>317,996</b>	<b>100.0</b>	<b>362,775</b>	<b>100.0</b>	<b>421,094</b>	<b>100.0</b>

Our business focuses on international market and our customers are mainly from the European market. The following table sets forth information about our revenue by geographical segment during the Track Record Period:

	For the year ended 31 December					
	2016		2017		2018	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Key European Countries <sup>(Note 1)</sup>	228,099	71.8	262,413	72.3	292,020	69.3
Hong Kong	35,769	11.2	38,357	10.6	41,246	9.8
United States	21,963	6.9	17,916	4.9	20,577	4.9
Others <sup>(Note 2)</sup>	32,165	10.1	44,089	12.2	67,251	16.0
	<b>317,996</b>	<b>100.0</b>	<b>362,775</b>	<b>100.0</b>	<b>421,094</b>	<b>100.0</b>

Notes:

1. Key European Countries include Netherlands, Italy, United Kingdom, France and Hungary.
2. Others include, without limitation, the PRC, Japan, South Korea, India, Canada, Spain, Germany, Australia, Argentina, Brazil, Mexico, South Africa and United Arab Emirates.

### COMPETITIVE STRENGTHS

We believe that our success is attributable to, among other things, the following competitive strengths:

#### **We have a stable and established customer base that span across multiple countries**

We believe that our ability to provide integrated and customised services to customers has helped us build a stable and established customer base that span multiple countries. We have sold our eyewear products to 36 countries during Track Record Period with primary focus on the European market which contributed for over 65% of our total revenue for each of the years ended 31 December 2016, 2017 and 2018, respectively. In addition, our products were sold to each of the top ten spectacle frame importing countries or regions in 2018 in terms of trade value according to the Frost & Sullivan Report (for instance, Netherlands, Italy, the United Kingdom, France, Germany, the United States, Canada, Japan, Hong Kong and the PRC). Such broad customer base signifies our ability to tailor our products for consumers located at all over the world. We believe that our worldwide customer base provide a high degree of stability to our business and reduce our sales concentration risk in any particular country, making us less susceptible to changing market and economic conditions in any single geographical area.

Our major customers include reputable international corporations who are eyewear products retailers. We have successfully maintained business relationships with our top five customers during the Track Record Period ranging from two to nine years. Our Directors believe that our long-standing and stable relationship with our customers are attributable to (i) our industry experience and technical expertise; (ii) our ability to understand their needs and our customised services to accommodate their requests; and (iii) our capabilities in design and development, procurement, quality control and logistics management. We communicate and work with our customers during the production process to ensure that our products are properly designed or manufactured in accordance with their expectations or specifications. In addition, we engaged four consultants who are responsible for our principal sales markets to serve our overseas customers. Our Directors believe that as our major customers are international and established enterprises, it reduces our operational risks due to market volatility.

#### **We possess strong eyewear product design and development capabilities**

As an established manufacturer that produces and sells a wide range of eyewear products, we attribute our success to our strong ability in designing, developing and manufacturing customised and quality eyewear products for our customers. Our comprehensive range of customised services range from product design and development, sourcing and procurement of raw materials, production, quality control, to packaging and delivery services. We believe that the provision of integrated and customised solutions to our customers would enable us to ensure the delivery of well-designed and crafted quality eyewear products, hence allowing our customers (who are principally corporations engaging in eyewear products retailing) to focus their attention and resources on sales and marketing and brand management.

Fundamental to our ODM business, our strong design and development capability stems from a good understanding of the needs of our customers and end-consumers. During the Track Record Period, we collaborated with our ODM customers in introducing customised eyewear product designs based on either our own design plans or design concepts provided by our customers. Having established business relationships with customers located around the world, we discuss with our customers in order to understand the latest market trends and preferences and to collect their feedback on the existing products and their new design concepts. Leveraging on the information and feedbacks collected, we are able to timely and accurately adjust our in-house design efforts so as to be able to continuously introduce eyewear products that are capable of capturing the market trends and demands at competitive prices. Our in-house product design and development team was led by one product design and development manager and one chief designer, and comprised 83 members in total as at the Latest Practicable Date. Our Directors believe that our strong design and development capabilities differentiate ourselves from our competitors and hence enable us to strengthen our market position.

Leveraging on our strong design and development capabilities and manufacturing expertise, we launched our own branded OBM products under the brand name “miga” in 2016 in order to solidify our market position, diversify our revenue stream and fuel our long term development. By developing and offering eyewear products under our own brand and primarily selling our OBM products directly to eyewear retailers, we believe that we could minimise the intermediary costs that are normally incurred along the supply chain under ODM and OEM businesses. Our Directors believe developing our own branded products is conducive to our market recognition and brand visibility, and we will continue to develop our OBM business.

### **We have strong commitment on craftsmanship and quality of our eyewear products**

We pride ourselves in our craftsmanship and commitment in manufacturing stylish, functional and enduring eyewear products. As our products are primarily manufactured for notable retail eyewear brands of our customers, we place strong emphasis on our quality control measures in order to ensure production and delivery of consistent, quality and reliable eyewear products in accordance with the designs and specifications provided by our OEM customers or developed by us for our ODM customers.

Our Group adopts production processes that balance manual and semi-automated production techniques and technologies to manufacture quality eyewear products. With the comprehensive production equipment and facilities in our Shenzhen Production Base and Jiangxi Production Base and our sizeable labour force of 1,068 full-time employees (including 728 manufacturing workers) as at the Latest Practicable Date, our Directors are of the view that we possess the necessary production technique and know-how and skilled labour to manufacture quality eyewear products in mass quantity and in timely manner at competitive prices. With the experience of our workers, we can produce spectacle frames or sunglasses of various designs and weight, whether in acetate or metal or combination of both, in accordance with the timeframe and delivery schedule set by our customers. We are therefore capable of offering a comprehensive product portfolio of diversified styles and price range for our customers to capture the changing market trends and consumer demand.

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## BUSINESS

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Stringent quality control procedures have been established throughout our entire manufacturing process in each of our Shenzhen Production Base and Jiangxi Production Base, covering different stages from quality control of raw materials, in-line inspection of work-in-progress and final inspection on finished products. Our quality control department is responsible for inspecting the raw materials before the manufacturing process begins. Quality checking at each stage of the manufacturing process on a sampling basis is also conducted to ensure the quality of our finished products and spare parts. We also conduct quality checking on the products or parts which are manufactured or processed (as the case may be) by our subcontractors. With our commitment in quality control, our internal test report has been recognised by Specsavers, one of our major customers, as a qualified third-party test report. Such internal test report will be accepted in lieu of a test report issued by a third-party testing laboratory, which signifies the recognition of our quality control by Specsavers. For further details of our Group's quality control procedures, please refer to the paragraph headed "Quality Control" in this section.

We have been accredited with, amongst others, ISO 9001:2015 Quality Management System certification and ISO14001:2015 Environmental Management System certification. Please refer to the paragraph headed "Awards and Accreditations" in this section for further details.

### **We have a competent management team with experience and knowledge in the eyewear industry.**

Our Directors believe that our competent management team has been and will continue to be crucial to the management and success of our business. The management of our Group is led by Mr. Joe Kwok (being our Chairman of the Board and an executive Director), and Mr. Ken Kwok (being our chief executive officer and an executive Director), who have accumulated over 20 years and 18 of experience in the eyewear industry, respectively. The experience and industry knowledge of our Directors enable our management to have a comprehensive understanding of the market conditions of the eyewear industry and to operate our business. Please refer to the section headed "Directors, Senior Management and Employees" in this prospectus for details of the biographies of our Directors and senior management.

## **BUSINESS STRATEGIES**

We intend to strengthen our market position and increase our market share by pursuing the following strategies:

### **Increase the level of automation in our production process and further enhance our production efficiency and capacity**

#### *(i) Increase the level of automation in our production process*

According to the Frost & Sullivan Report, the retail eyewear market in Europe, being our primary sales market contributing over 65% of our total revenue during the Track Record Period, is expected to grow at a CAGR of 4.2% and reach US\$28.6 billion in 2023. In order to capture the continuous growth of the retail eyewear market in Europe, it is crucial to further enhance our production efficiency to enable us to meet the growing customer demand.

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## BUSINESS

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Being an established manufacturer operating two sizeable production bases (namely our Shenzhen Production Base and Jiangxi Production Base) in the PRC, we believe that our capability of producing quality eyewear products in mass quantity at competitive prices is vital to our development and success. Since we currently adopt a production model that balances manual and semi-automated production processes, our ability to maintain the quality of our craftsmanship on one hand, and the production costs on the other hand, is believed to be fundamental in maintaining our competitiveness in the eyewear market. We incurred direct labour costs of approximately HK\$39.5 million, HK\$53.1 million and HK\$67.7 million for the years ended 31 December 2016, 2017 and 2018, respectively.

According to Frost & Sullivan, the labour costs are on the rise in the PRC (for instance, the average annual wage of an employed person in manufacturing industry in the PRC increased substantially from RMB46,431 in 2013 to RMB64,452 in 2017). It is therefore important for us to control or even reduce our direct labour costs through enhancement and optimisation of degree of automation in our production process so as to avoid undue burden on our liquidity and to maintain our profit margin. Please refer to the section headed “Financial Information – Description of Selected Items in Consolidated Statements of Profit or Loss – Cost of sales” in this prospectus for the sensitivity analysis on the hypothetical changes in direct labour costs on our profit for the Track Record Period.

During the Track Record Period, we incurred capital expenditure of approximately HK\$27.9 million in the purchase of machinery and equipment. Excluding the amount of approximately HK\$19.9 million used in our Jiangxi Production Base (as elaborated below), we recorded approximately HK\$8.0 million for acquiring machinery and equipment for our Shenzhen Production Base, out of which approximately HK\$3.2 million was used for replacing and upgrading existing equipment and machinery and HK\$4.8 million was used for additional purchase of equipment and machinery to enhance our capability in performing certain production steps (e.g. engraving and logo laser), as well as improving the working environment of our workplace. The machinery and equipment in our Shenzhen Production Base which was replaced during the Track Record Period mainly included (i) five CNC machines which possess automation functions and replaced the then existing manual machines; and (ii) 24 tumblers which are over five years of using age which exceeded the expected useful life. Taking into account the periodic repairs of these equipment and machinery due to normal wear and tear, our Directors have decided to replace certain of our existing production machineries. We also consider constant upgrading of our equipment and machinery enhances our operations.

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## BUSINESS

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We intend to continually increase the level of automation in our production process by upgrading and enhancing the machineries and equipment in our existing production facilities, thereby improving our operation flexibility and lower our production costs. To increase the level of automation in our production process, our Group plans to purchase a number of automated machines and facilities (including, without limitation, CNC machines, coiling machines and temple processing machines) to improve our level of automation in, and the quality and efficiency of, the production processes in our Shenzhen Production Base. The following table sets forth the type, quantity and intended usage of the new equipment and machineries we intend to purchase for our Shenzhen Production Base:

Type of major production equipment and machinery	Quantity	Intended usage	Approximate expected purchase price (HK\$'000)
CNC machines	9	(i) four are to be used to replace our existing machines which are in use of over five years and has gone beyond the expected useful life; (ii) four are to be used for automation purposes and replaces manual machines; and (iii) one is to be used to support our business expansion	3,293
Coiling machines	4	Automation purposes and replaces manual machines	1,523
Temple processing machines	10	Automation purposes and replaces manual machines	2,442
Acetate dissecting machines	4	Automation purposes and replaces manual machines	874
<b>Total:</b>	<b>27</b>		<b>8,132</b>



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## BUSINESS

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In light of the modernisation of our production process, we also intend to recruit skilled staff (being production manager and engineers) to monitor and operate the newly acquired automated machines, upgrade our office equipment and facilities to upkeep our production efficiency and strengthen our logistics support. It is expected as a result of our effort in increasing the level of automation in our production process, we could reduce 23 personnel in our production process, and increase our production capacity of approximately 180,000 units in our Shenzhen Production Base annually. As a result, our Directors estimate that it will allow us to achieve (i) a gross saving from reduction in personnel of approximately HK\$2.4 million; and (ii) a saving in production costs of HK\$0.8 million per year (calculated based on the estimated increase in depreciation charges and savings in related overhead costs). By taking into account a growth rate of 8.6% (being the estimated CAGR of average wage of employed persons in manufacturing industries in urban areas of the PRC between 2018 and 2022 according to Frost & Sullivan), the average annual gross saving from reduction in personnel for five years would amount to approximately HK\$4.1 million.

We plan to utilise approximately HK\$11.5 million, representing approximately 12.3% of the net proceeds from the Share Offer, to pursue such strategies. Please refer to the section headed “Future Plans and Use of Proceeds – Use of Proceeds” in this prospectus for further details.

*(ii) Further enhancement of production efficiency and capacity*

Our Directors consider that one of our key competitive strengths is our ability to produce a wide variety of eyewear products of various specifications at mass quantities per our customers’ requests. In addition, we take pride in our design and development ability in continuously introducing eyewear products design that are capable of capturing the diverse market trends and consumers’ preferences in various overseas countries. Unlike manufacturers of standardised products who could easily utilise their production equipment in full to bring down production costs by economies of scale, we are required to equip ourselves with abundant production equipment to meet the diversified demands of our customers.

To capture the growing market demand (in particular, the growth in retail sales of eyewear products in Europe at CAGR of 3.9% from 2014 to 2018 according to Frost & Sullivan), and having considered the then high utilisation rate of our Shenzhen Production Base, we acquired a piece of land in Jiangxi, the PRC and constructed our Jiangxi Production Base on it in 2016 to increase our production capacity and support our expansion, and incurred costs of approximately HK\$19.9 million in purchasing new machinery and equipment (representing approximately 71.3% of our capital expenditure of approximately HK\$27.9 million during the Track Record Period), which were necessary to support our new Jiangxi Production Base. Since its commencement of operation in the year ended 31 December 2016, the production in our Jiangxi Production Base had caught up quickly with utilisation rate increased substantially from approximately 34.0% for the year ended 31 December 2016 to approximately 103.8% for the year ended 31 December 2017. For further details of the estimated production capacity and utilisation rates of our Shenzhen Production Base and Jiangxi Production Base during the Track Record Period, please refer to the paragraph headed “Our Production Bases” in this section of prospectus.

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## BUSINESS

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Our customers include eyewear retailers, trading companies and licensed brand owners with operations in a wide geographical scope. During the Track Record Period, with our stable relationship with our customers and delivery of eyewear products to their satisfaction, we have been approached by our existing top five customers (namely Customer B, Marcolin and De Rigo which we are their non-exclusive supplier) to expand our cooperation with them by, among others, (i) allocating a designated production line in our production facilities to manufacture eyewear products for them; (ii) increasing the number of brands of eyewear products assigned to our Group as their supplier; or (iii) inviting our Group to manufacture eyewear products for their group or affiliated companies in other geographical regions. For the years ended 31 December 2016, 2017 and 2018, these three top five customers in aggregate placed orders of approximately 2.0 million, 2.1 million and 3.1 million units of spectacle frames and sunglasses to our Group and contributed approximately HK\$160.7 million, HK\$167.9 million, and HK\$228.2 million to our revenue in the corresponding period, respectively. As at the Latest Practicable Date, Customer B, Marcolin and De Rigo entered into a letter of intent with our Group on our future cooperation and the increase in the expected value of orders placed with our Group.

We also meet with our existing and potential customers from time to time to look for future business opportunities. As at the Latest Practicable Date, (i) four of our existing top five customers (which we are their non-exclusive supplier) entered into letters of intent with our Group on our future cooperation and the increase in the expected value of orders placed with our Group; and (ii) we were in negotiation with two potential customers/brands on the potential cooperation, whereby we meet these customers from time to time at their offices or industry exhibitions, and have provided our latest ODM product designs and samples during our negotiation process.

Considering the respective utilisation rates of our Shenzhen Production Base and Jiangxi Production Base were maintained at a relatively high level during the Track Record Period, we plan to expand the production capacity of our Jiangxi Production Base by constructing the New Building on the currently unused portion of our self-owned land in Jiangxi, the PRC and purchasing and installing a number of production machines and facilities (including brazing machines and CNC machines) in the newly constructed factory building.

It is intended that the first floor of the New Building would be used as warehouse for storage of raw materials and finished products, as well as quality control, and one production line would be set up in each of the second, third and fourth floor of the New Building. The production line in our second, third, and fourth floor would be used for manufacturing acetate, titanium and metal eyewear products, respectively.

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The estimated timetable for the construction of the New Building in our Jiangxi Production Base is as follows, which has taken into account factors such as weather, availability of workers and construction materials but subject to unforeseeable circumstances:

	2019	2020	2021
	Six month 2nd	Six month 1st                      2nd	Six month 1st
Construction of the New Building	-----		
Internal renovation of the New Building		-----	
Acquisition of machinery and equipment		-----	
Delivery and installation of machinery and equipment			-----
Commencement of production			-----

The total investment costs for the New Building is estimated to be approximately HK\$30.0 million, of which (i) approximately HK\$12.0 would be used for construction of the New Building; and (ii) approximately HK\$18.0 million would be used for acquisition of machinery and equipment.

Out of the estimated total investment costs for the New Building approximately HK\$30.0 million, approximately HK\$28.0 million will be funded by the proceeds from the Share Offer and the remaining approximately HK\$2.0 million will be financed by our internal resources. The breakdown of the investment costs of the New Building using proceeds from the Share Offer is as follows:

	From the Latest Practicable Date to 31 December 2019 (HK\$'000)	For the six months ending 30 June 2020 (HK\$'000)	For the six months ending 31 December 2020 (HK\$'000)	For the six months ending 30 June 2021 (HK\$'000)	Total amount to be used from proceeds of the Share Offer (HK\$'000)
Construction of the New Building	1.0	3.0	6.0	–	10.0
Acquisition of equipment and machinery	–	6.2	9.5	2.3	18.0
Total	1.0	9.2	15.5	2.3	28.0

Our Directors consider that the estimated payback period for the New Building is approximately 2.6 years, which was calculated based on the following assumptions and factors:

- total investment costs of approximately HK\$30.0 million;
- the estimated production capacity of the New Building;

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- the estimated number of products ordered by our existing customers and potential customers and that are manufactured at the New Building, which took into account the revenue contributed by our existing customers and the letters of intent entered into by our top five customers;
- depreciation of the premises calculated on a straight-line basis for 25 years;
- depreciation of equipment and machinery calculated on a straight-line basis and using useful lives of five years; and
- estimated costs which are in line with our existing cost structure of our operations.

Our Group will acquire additional equipment and machinery for the New Building. We estimate the relevant capital expenditure to be approximately HK\$18.0 million, which is based on the latest quotations obtained by our Group and will be paid by the proceeds from the Share Offer.

Type of production equipment and machinery	Quantity	Estimated capital expenditure <i>HK\$'000</i>
CNC machines	37	7,879
Tumblers	78	1,582
Brazing machines	69	1,202
Baking machines	14	191
Ancillary equipment and parts for production	342	7,146
		18,000

As at the Latest Practicable Date, we incurred none of the estimated capital expenditure of approximately HK\$18.0 million. We expect the equipment and machinery for the New Building would be delivered and installed by phases from the mid of 2020 to first half of 2021. The New Building is expected to commence its operation in the second half of 2020 in phases. The increase in the production capacity of our Jiangxi Production Base attributable to the operations of the New Building is estimated to be approximately 100,000 units, 980,000 units, 1,580,000 units and 1,840,000 units for the years ending 31 December 2020, 2021, 2022 and 2023, respectively, which are calculated based on the same basis as disclosed under the paragraph headed “Production – Our Production Bases” in this section of the prospectus.

By expanding the production capacity through the New Building, based on the accounting policies adopted by our Group and to the best of our Directors’ knowledge and belief, the subcontracting cost as a proportion to our cost of sales is expected to decrease gradually. We are of the view that the increase in depreciation charges will not be significant as compared to the total cost of sales. To the best of our Directors’ knowledge and belief, the corresponding operational and financial risk in constructing the New Building is manageable. By expanding the production capacity through the New Building, the risk of reliance on our subcontractors would decrease.

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Our Directors believe that there will be sufficient market demand in the eyewear industry around the globe that justifies our planned expansion in production capacity. Our actual production volume continued to increase during the Track Record Period and, with the commencement of operation of our Jiangxi Production Base in 2016, recorded a growth of approximately 40.3% in terms of actual production volume for the year ended 31 December 2017 as compared to the corresponding period in 2016. With the anticipated continued growth in the European and the North America eyewear markets (being two principal markets where we sold our products to) in terms of sales volume at respective CAGR of approximately 4.2% and 2.4% during 2019 to 2023 according to Frost & Sullivan, our Directors believe that there will be sufficient market demand to justify our expansion. Moreover, with our anticipated enhancement in brand visibility upon Listing and the continued development of our OBM business, coupled with our planned reinforcement of sales and marketing effort utilising net proceeds from the Share Offer upon Listing, we reasonably believe that we will enjoy higher market recognition and attracting more overseas customers in the near future.

In addition, since the duration of the product design and development process under our ODM business model may vary diversely for different customers or targeted countries or consumers, we are of the view that we, as an integrated services provider, shall maintain sufficient buffer in our production capacity in order to ensure that we would have the necessary capability to fulfill the production orders upon the eyewear designs having been confirmed or the products are well received by the market and demanded extra supplies. Moreover, given that we may from time to time not have sufficient production capacity for particular types of eyewear products to fulfill our customers' demands, we had from time to time subcontracted part of our manufacturing process to our subcontractors in the PRC. Upon receipt of the eyewear products manufactured by our subcontractors, we would further carry out the necessary quality control to ensure that the finished products comply with our customers' specifications and our own quality control standards. As such, our Directors believe that should we be able to further enhance our production capacity and efficiency, we would be able to further improve our in-house production capability and reduce any reliance on third party subcontractors along the production process and hence delivering more consistent and quality eyewear products for our customers.

Our production capacity is calculated based on, among other things, the availability of machines in our manufacturing process, and the planned number of production workers in our production facilities. With the enhancement of production capacity and efficiency by building the New Building and acquiring additional equipment and machinery for the New Building which could support our business needs, we also intend to recruit additional staff, upgrade our office equipment and facilities to align with the manpower need arising from the acquisition of additional equipment and machinery, upkeep our production efficiency and strengthen our logistics support in our Jiangxi Production Base upon Listing. We intend to recruit a total of 310 production staff which were based on the following considerations:

- (i) there were three existing production lines in our Jiangxi Production Base with 307 manufacturing workers as at the Latest Practicable Date;
- (ii) three new production lines would be set up in our New Building and would be used for manufacturing acetate, titanium and metal eyewear products, respectively and would require a comparable level of additional production workforce to support the operations of the three new production lines; and

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- (iii) the expected increase in demand from our customers whereby four of our existing top five customers entered into letters of intent with our Group on our future cooperation and the increase in the expected value of orders placed with our Group.

The table below sets out details of production staff to be recruited for our Jiangxi Production Base, salary of which will be funded from our internal resources:

Function	Number of staff	Major qualifications or other requirements	Approximate years of working experience	Estimated range of monthly salary (HK\$)
Supervisors	23	Junior secondary education or above	3 or above	6,500 – 7,000
Technical production staff	30	Junior secondary education or above	2 or above	5,300 – 5,800
General production staff	257	Junior secondary education	Below 1 Above 1	3,200 – 4,100 3,500 – 4,700
Total	310			

Following this strategy to expand the production bases and level of automation, we expect that the amount of subcontracting work required in the PRC will decrease save for the electroplating process which we currently do not possess the equipment to perform such works.

We plan to utilise approximately HK\$36.6 million, representing approximately 39.3% of the net proceeds from the Share Offer, to pursue such strategies. Please refer to the section headed “Future Plans and Use of Proceeds – Use of Proceeds” in this prospectus for further details.

### Expansion of customer base in the United States and Asia market and promotion of our brand

During the Track Record Period, Europe was our largest market, contributing to over 65% of our total revenue during the relevant period. Our Group plans to replicate its success in the European market and expand its customer base in the United States and Asia. During the Track Record Period, we have established a diversified customer base with customers located in 36 countries. Apart from our major European market, the United States market contributed to approximately 6.9%, 4.9% and 4.9% of our total revenue for the years ended 31 December 2016, 2017 and 2018, respectively. In addition, we have also sold our products to customers in various countries in Asia, including but not limited to the PRC, Japan, South Korea and India. With the United States, the PRC and Japan being some of the top ten spectacle frame importing countries by trade value in 2018 according to the Frost & Sullivan Report, we believe that our expansion in customer base in the United States and Asia will provide additional growth driver to our revenue and profit.

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We intend to expand our customer base in the United States and Asia market by participating in eyewear industry exhibitions, approaching potential customers including eyewear retailers and licensed brand owners based in the United States and Asia, as well as seeking business referrals from existing customers. We intend to recruit additional sales and marketing staff with details below who are experienced in the eyewear industry and/or well equipped with sales and marketing skills, and will be responsible for soliciting potential customers in the United States and Asia:

<b>Position</b>	<b>Number of staff</b>	<b>Major qualifications or other requirements</b>	<b>Approximate years of working experience</b>	<b>Estimated monthly salary (HK\$)</b>
Sales and marketing manager	1	Bachelor degree or above, preferably in the sales and marketing industry	5	40,000
Senior sales and marketing executive	1	Diploma or above	3	25,000
Junior sales and marketing executive	2	Diploma or above	1	15,000

We also intend to reinforce our brand recognition and visibility through development and expansion of our OBM business. Currently, our OEM and ODM products are primarily sold under our customers' brand names or other designated names. With our experience in designing and manufacturing OEM and ODM eyewear products, we commenced offering self-designed OBM products under the brand name "miga" in 2016. The revenue attributable to our OBM products were approximately HK\$655,000, HK\$194,000 and HK\$685,000 for the years ended 31 December 2016, 2017 and 2018, respectively. With our strategy to enhance our sales and marketing and brand building effort for, among other things, development of our OBM business, our Directors believe that the sales of our OBM products will be further solidified resulting in an enlarged customer base, diversification of our income streams as well as enhancement of our competitive position. In particular, we intend to (i) engage sales representatives; and (ii) participate in exhibitions, for promoting our OBM products.

To pursue such strategies, we expect to use approximately HK\$10.3 million, representing approximately 11.0% of our net proceeds from the Share Offer. For further details, please refer to the section headed "Future Plans and Use of Proceeds – Use of Proceeds" in this prospectus.

### **Strengthen our design and development capability**

We believe part of our success is built upon our ability in translating market trends into designs and product drawings that meet the customers' needs and fit consumers' tastes. In addition to the design of ODM products, our in-house product design and development team (led by one product design and development manager and one chief designer, and comprising a total of 83 members as at the Latest Practicable Date) is also responsible for designing our OBM products under the brand name "miga". Our product design and development manager is responsible for, among other things, the day-to-day



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operations of the product design and development team, job allocation and final approval of designs of our ODM products. On the other hand, our chief designer supervises the design unit and reports to our product design and development manager. Aside from our product design and development manager and chief designer, our Group had seven designers responsible for creating designs and created over 2,000 designs annually for our customers to choose from, while the remaining 74 members in our product design and development team were responsible for technical drawings and sample making as at the Latest Practicable Date.

In view of the expansion of our business with the indication from our customers to consider increasing their purchase volume with us, it is critical for us to expand our design and development capability for our ODM and OBM business in order to maintain our competitiveness and differentiate ourselves from other manufacturers. As such, we intend to recruit additional in-house designers so as to strengthen our in-house product design and development capability and shorten our lead time in reverting with quality designs for our customers' consideration under our ODM business. Having considered the existing workload of our product design and development manager and chief designer, and in order to enhance the management of the product design and development team and expedite the design process, we expect our newly recruited director of design to be responsible for managing and overseeing the product design and development team, whereas each of the two senior designers and one new junior designer would be responsible for designated customers and handle the design works for the increasing orders from such customers. The following table sets out the number, qualifications and years of experience required for the positions we intend to recruit:

<b>Position</b>	<b>Number of staff</b>	<b>Major qualifications or other requirements</b>	<b>Approximate years of working experience</b>	<b>Estimated monthly salary (HK\$)</b>
Director of design	1	Bachelor degree or above, preferably in the design industry	7	50,000
Senior designer	2	Diploma or above, preferably in the design industry	3	25,000
Junior designer	1	Diploma or above, preferably in the design industry	1	15,000
Product development manager in the PRC	1	Diploma or above, preferably in the product development industry	5	30,000

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We also plan to rent a property for setting up a design laboratory and showroom in Hong Kong. During the Track Record Period, our customers (including our key customers) visited our meeting rooms in our offices and/or factories from time to time which exhibited our product samples. Such meeting rooms were mainly used for our Group's internal meetings and cannot cope with our business expansion needs. Furthermore, our major customers, representing over 50.6%, 46.3% and 54.2% of total revenue for the years ended 31 December 2016, 2017 and 2018, respectively, had representative or buying offices in Hong Kong. According to the Frost & Sullivan Report, it is important for brand owners and retailers shorten their product launch cycle to cope with consumers' demand. The new showroom can further improve the buyers/customers relationships to reduce the purchase and sales cycle duration. It is common for sizeable eyewear manufacturers to set up a design laboratory and showroom specifically for its customers, which can enhance the overall customer experience, showcase its latest product samples and designs, and strengthen its corporate image and brand awareness, according to Frost & Sullivan. Our Group created over 2,000 designs annually during the Track Record Period and we anticipate the number of designs going forward will increase given the continual expansion of our business and the indication from our customers to place more orders with our Group. As such, our Directors consider that with our own design laboratory to house our design team and design equipment where our designers can use the laboratory as their work station as well as meeting venue with our customers, we could expedite the design and development process and in turn enabling our Group to translate the evolving market trends into designs that meet the customers' need in an efficient and timely manner. Furthermore, with our own showroom, our Group would be able to (i) host our customers and showcase our OBM products to them through private exhibitions; (ii) enable our customers to understand more easily our design and development and production capabilities; (iii) facilitate exchange of information and idea on the changing taste and preference of various markets with our customers; and (iv) enhance our corporate profile and recognition both locally and overseas.

The laboratory and showroom is intended to be of approximately 1,000 s.f. to 1,500 s.f. in size locating in central business district in Hong Kong with an estimated monthly rental ranging from HK\$60,000 to HK\$90,000. Below is the timeline of setting up the laboratory and showroom and the number and types of equipment and machineries our Group plans to purchase for its showroom:

		<b>Timeframe</b>
Site-inspection of potential locations of laboratory and showroom		July 2019
Negotiation of tenancy		August 2019
Commencement of tenancy		September 2019
Renovation		October to November 2019
Acquisition and installation of equipment and machinery		December 2019
Commencement of operations of laboratory and showroom		January 2020
		<b>Estimated capital expenditure HK\$'000</b>
<b>Type of equipment and machinery</b>	<b>Quantity</b>	
Computers	5	144
Printers	2	55
Projector	1	10
Air-conditioning and other appliances	3	100

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To pursue such strategies, we expect to use approximately HK\$8.4 million, representing approximately 9.0% of our net proceeds from the Share Offer. For further details, please refer to the section headed “Future Plans and Use of Proceeds – Use of Proceeds” in this prospectus.

### **Continue to enhance our quality control capability**

Given the spectacle frame manufacturing market in the PRC being highly fragmented with approximately 6,000 manufacturers according to Frost & Sullivan, we strive to differentiate our Group from our competitors through production of quality and enduring eyewear products. In anticipation of our planned expansion in business scale and production capacity, our Group needs to support and enhance our quality control capability in order to be able to deliver eyewear products of consistent quality to our customers. We intend to recruit the positions below with the preferred qualifications and working experience:

<b>Position</b>	<b>Number of staff</b>	<b>Major qualifications or other requirements</b>	<b>Approximate years of working experience</b>	<b>Estimated monthly salary (HK\$)</b>
Quality assurance manager	2	Bachelor degree or above, preferably in the quality control industry	10	20,000
Senior quality assurance technician	3	Diploma or above, preferably in the quality control industry	5	15,000
Junior quality assurance technician	5	Diploma or above, preferably in the quality control industry	2	10,000

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## BUSINESS

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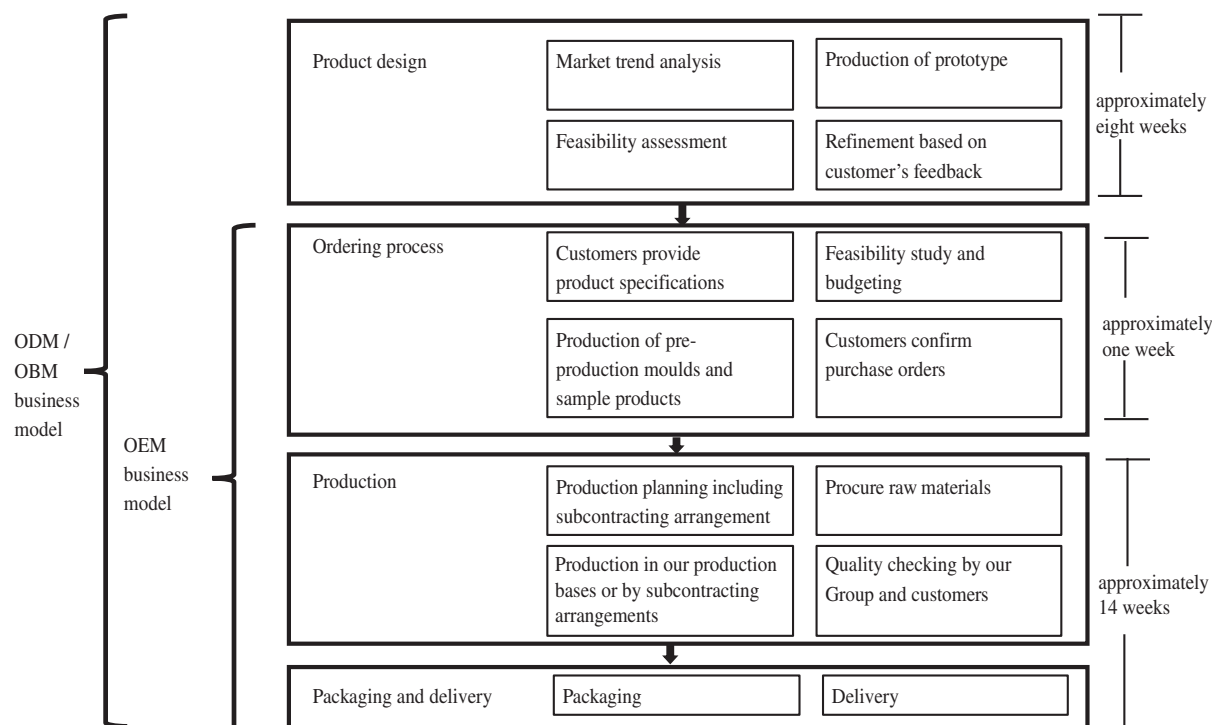
We currently set up one laboratory in each of our Shenzhen Production Base and Jiangxi Production Base to conduct testing on our raw materials, work in progress and finished products as part of our quality control process. As at the Latest Practicable Date, we possess 15 types of machinery to carry out various kinds of tests on our products (including but not limited to resistance to perspiration, dimension discrepancy, frame structure test and salt spray fogging test), with our test reports being accepted by one of our major customers as a qualified third party report. As part of our commitment to strengthen our quality control, we intend to purchase additional machinery for our laboratory (including nickel testing machine and eye shape tracer) to widen the types of tests carried out on our products to ensure our product quality. Below is a breakdown of the number and types of equipment and machineries our Group plans to purchase for its laboratory:

Type of equipment and machinery	Quantity	Estimated capital expenditure <i>HK\$'000</i>
Nickel testing machines	2	495
Eye shape tracers	4	463
Salt spray testing machines	4	246
Lens testing machines	2	148
Electric dryers	6	68
	<hr/>	<hr/>
<b>Total</b>	18	1,420
	<hr/> <hr/>	<hr/> <hr/>

To pursue this strategy, we expect to use approximately HK\$4.2 million, representing approximately 4.5% of our net proceeds from the Share Offer. For further details, please refer to the section headed “Future Plans and Use of Proceeds — Use of Proceeds” in this prospectus.

## OUR BUSINESS MODEL

The following diagram illustrates an overview of our Group's business model:



## OEM business

Under our OEM business model, we manufacture eyewear products based on designs and specifications provided by our customers. The intellectual property rights of those designs provided by our customers belong to the relevant customers, and they may provide those designs to other suppliers for manufacturing. We provide raw material procurement, production, quality control, packaging and delivery services in the manufacturing of eyewear products bearing our customers' designated brand names. Our customers will first send us detailed product designs and specifications, and we would create pre-production moulds and product samples for our customers' approval before commencing mass production. Upon our customers having approved the pre-production moulds and product samples, we will commence procurement of raw materials, and mass production of the product. We are also responsible for packaging of products manufactured and co-ordinating the delivery of products to our customers.

### ODM business

To differentiate our Group from the competitors, we also adopted the ODM business model whereby we design, develop and manufacture eyewear products according to the requirements of our customers. Under our ODM model, we undertake the design and development of eyewear products ourselves, based either on our own design plans or design concepts provided by our customers. We will design and develop custom-made drawings for our customers' selection and run series of feasibility assessments on our designs with back-and-forth feedback from customers. Our ODM customers will then place orders after they have decided the design and specification of the products. The intellectual property rights of our designs of the products, orders of which have been confirmed by our customers, belong to our customers, and they may engage other suppliers to manufacturing those products designed by us. Upon receipt of orders, we will commence producing the eyewear products under our customers' designated brand names.

### OBM business

Leveraging on our strong design capability, our Group commenced offering our OBM products under our own brand "miga" in 2016 to our customers who are mainly eyewear retailers. Under such business model, our in-house product design and development team develops and our Group owns the design of our eyewear products which are sold under our own brand name "miga".

Below are sample product images of spectacle frames and sunglasses manufactured in the OBM business model under the brand name "miga":



## BUSINESS

The following table sets out the breakdown of our revenue of ODM, OEM and OBM eyewear products, respectively during the Track Record Period:

	For the year ended 31 December					
	2016		2017		2018	
	HK\$'000	(%)	HK\$'000	(%)	HK\$'000	(%)
ODM	184,667	58.1	188,896	52.0	212,187	50.4
OEM	132,674	41.7	173,685	47.9	208,222	49.4
OBM	655	0.2	194	0.1	685	0.2
<b>Total</b>	<b>317,996</b>	<b>100.0</b>	<b>362,775</b>	<b>100.0</b>	<b>421,094</b>	<b>100.0</b>

### OUR PRODUCTS

Our products can be categorised into (i) spectacle frames; and (ii) sunglasses, which are generally made of metal or acetate, and sometimes a combination of both. On our customers' demand, spare parts such as temples and sunglasses lens were sold to our customers. We also assemble demo lens to our spectacle frames and sunglasses lens to sunglasses during the manufacturing process. At the requests of our customers, we may add customised materials to the surface of spectacle frames and sunglasses, such as crystal and denim, to give our eyewear products some special textures. During the Track Record Period, we manufactured a diversified product portfolio of over 3,200 kinds of spectacle frames and sunglasses in aggregate.

The following table sets out the breakdown of our revenue by product categories during the Track Record Period:

	For the year ended 31 December					
	2016		2017		2018	
	HK\$'000	(%)	HK\$'000	(%)	HK\$'000	(%)
Spectacle frames	286,533	90.1	288,893	79.7	341,503	81.1
Sunglasses	29,756	9.4	71,221	19.6	77,754	18.5
Spare parts	1,707	0.5	2,661	0.7	1,837	0.4
<b>Total</b>	<b>317,996</b>	<b>100.0</b>	<b>362,775</b>	<b>100.0</b>	<b>421,094</b>	<b>100.0</b>



## BUSINESS

The table below sets out breakdown of our sales volume and average selling price of our spectacle frames and sunglasses which our Group manufactures during the Track Record Period:

	For the year ended 31 December					
	2016		2017		2018	
	Average selling price	Sales volume	Average selling price	Sales volume	Average selling price	Sales volume
	HK\$	Units '000	HK\$	Units '000	HK\$	Units '000
<b>Spectacle frames</b>						
Acetate	90.9	1,656	87.4	1,935	82.4	2,193
Metal	81.9	1,659	82.6	1,451	69.4	2,317
		<u>3,315</u>		<u>3,386</u>		<u>4,510</u>
<b>Sunglasses</b>						
Acetate	97.3	203	107.8	339	102.8	319
Metal	121.5	82	99.5	349	97.7	460
		<u>285</u>		<u>688</u>		<u>779</u>
<b>Spare parts (Note)</b>	15.9	108	16.2	164	14.0	131

*Note:* Spare parts included temples and sunglasses lens.

The table below sets out our Group's rolling backlog of orders by (i) sales volume; and (ii) value for each of the Track Record Period and as at the Latest Practicable Date:

	For the year ended 31 December						From 1 January 2019 to Latest Practicable Date	
	2016		2017		2018		Latest Practicable Date	
	Sales volume	Value	Sales volume	Value	Sales volume	Value	Sales volume	Value
	Units'000	HK\$'000	Units'000	HK\$'000	Units'000	HK\$'000	Units'000	HK\$'000
Opening balance as at								
1 January	943	83,363	1,491	131,969	1,584	144,042	1,551	131,927
Addition	4,256	366,602	4,331	374,848	5,387	408,979	2,642	213,019
Sales	<u>(3,708)</u>	<u>(317,996)</u>	<u>(4,238)</u>	<u>(362,775)</u>	<u>(5,420)</u>	<u>(421,094)</u>	<u>(2,129)</u>	<u>(181,882)</u>
Ending balance at the end of the period	<u>1,491</u>	<u>131,969</u>	<u>1,584</u>	<u>144,042</u>	<u>1,551</u>	<u>131,927</u>	<u>2,064</u>	<u>163,064</u>

### PRODUCT DESIGN

We take pride of our in-house product design and development capabilities. Our Group's in-house product design and development team research on eyewear fashion trend and the changing tastes of consumers in order to design eyewear products that appeal to our customers.

As at the Latest Practicable Date, our in-house product design and development team (led by one product design and development manager and one chief designer, and comprised 83 members in total) specialised in designing and developing new products and creating prototypes and samples. They work together with our sales and marketing team to maintain regular communication with our customers to exchange latest design ideas and knowledge on eyewear fashion trends and market direction. With our established business relationships with customers around the world, we are capable of collecting latest market information and developing designs and drawings that capture the trends and demands of consumers in various countries.

Based on an exchange of ideas and preferences with our customers, our product design and development team would conduct research on suitable raw materials for the collection and commence the necessary ground work for creating the contemplated designs. Such ground work includes developmental work on texture of the raw materials, colours, frame and temple size and distance across the lens. Our staff will also carry out feasibility assessment to examine the viability of the design.

After designs of the eyewear products are agreed upon, the customers may request our product design and development team to produce prototypes of the new designs and provide feedback to the prototypes. Our product design and development team will closely work with our customers to modify and finalise the designs. Once the customers approve the initial prototypes, a more advanced set of pre-production samples will be made for further comments and final approval by the customers before a purchase order is issued and bulk production is commenced.

For the years ended 31 December 2016, 2017 and 2018, expenses incurred for the design and development activities amounted to approximately HK\$3.3 million, HK\$4.8 million and HK\$5.3 million, respectively, and mainly consisted of (i) salaries of the design staff; (ii) research on raw materials; and (iii) costs associated with creation of prototypes and samples.

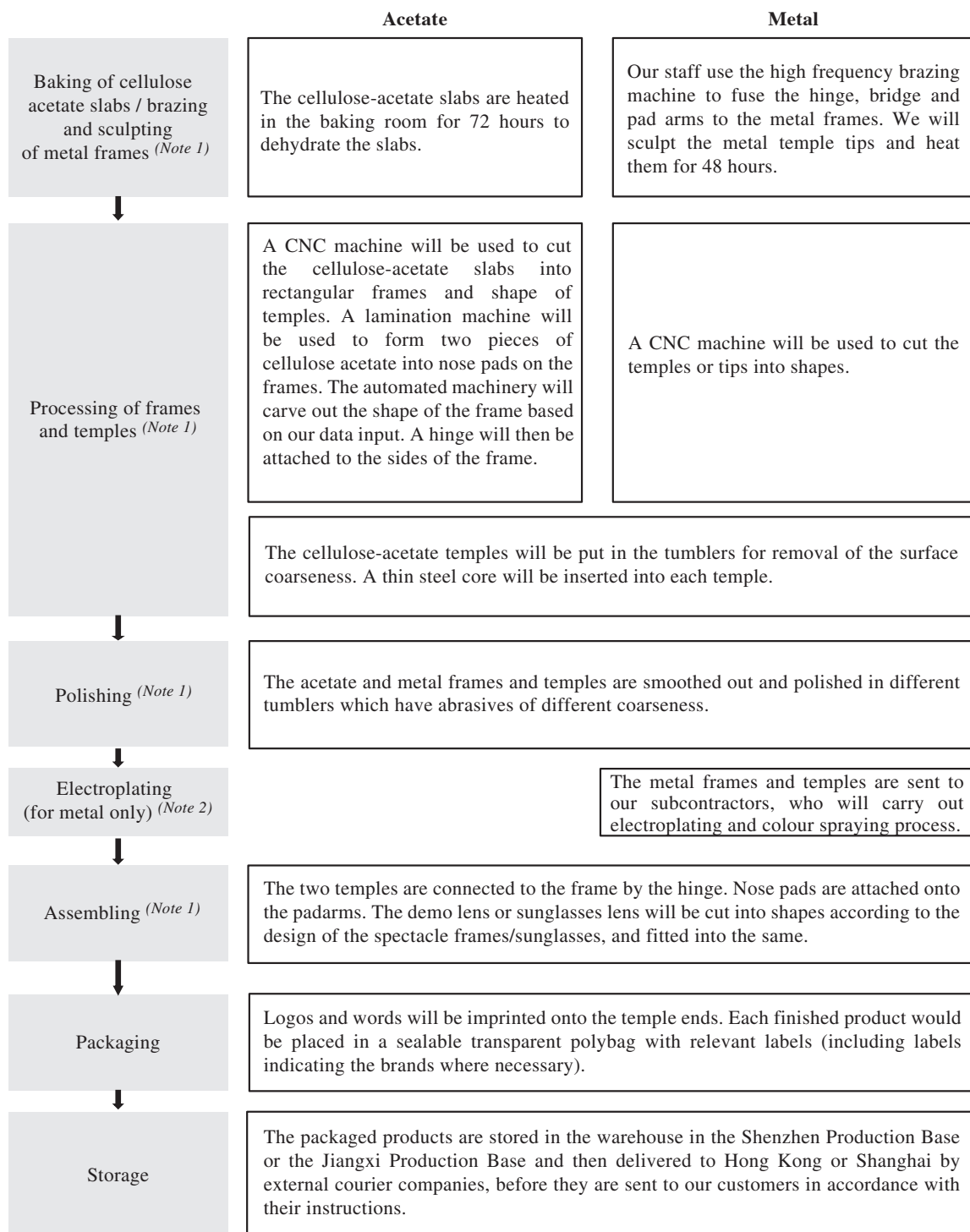
### ORDERING PROCESS

Our OEM product customers generally send us written instructions with their desired specification and requirements, including (i) type of products; (ii) style and design and specifications; (iii) quantity; and (iv) delivery time. Our ODM product customers will place orders for our ODM products based on our ODM samples or drawings.

Based on the customers' specifications and requirements, our production coordination department will conduct a review and budgeting process, taking into account (i) capacity of our production bases; (ii) availability and cost of raw materials; (iii) our manpower and knowhow of the techniques required to design and manufacture the products; and (iv) pricing and margins. Our management is responsible for overseeing the review and budgeting process. Our customers will place purchase orders after approving our pre-production moulds and sample products.

## PRODUCTION

The following diagram describes the production process for our spectacle frames and sunglasses:



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## BUSINESS

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*Notes:*

1. We may subcontract the manufacturing of the entire eyewear product or part of the production process (such as brazing) to our subcontractors.
2. Subcontracted procedure as we do not possess the necessary production facilities to conduct the electroplating process.

### **Our Production Bases**

We fulfil our orders by manufacturing in our production bases as well as by engaging subcontractors. We have two production bases, namely (i) our self-operated Shenzhen Production Base; and (ii) our self-owned Jiangxi Production Base. Our Shenzhen Production Base is located at 8, 10 and 18 Shijia Road, Biling Community, Pingshan District, Shenzhen, the PRC\* (中國深圳坪山區碧嶺社區石夾路8、10、18號), a leased property with a total gross floor area of approximately 10,849 sq. m.. Our Jiangxi Production Base is located at Glasses Industrial Park, Yujiang District, Yingtian, Jiangxi Province, PRC\* (中國江西省鷹潭余江(國際)眼鏡工業園), a self-owned property with a site area of approximately 20,000 sq. m..

We commenced our operations in the Shenzhen Production Base in 2013, which has three production lines for the manufacturing of spectacle frames and sunglasses. As at the Latest Practicable Date, we have 421 manufacturing workers at the Shenzhen Production Base.

To enhance our production capacity for coping with increasing market demand, we expanded our operations by establishing the Jiangxi Production Base in 2016, which has three production lines for the manufacturing of spectacle frames and sunglasses. Leveraging on the generally lower production and direct costs in Jiangxi, spectacle frames and sunglasses of a more competitive selling price and bulk purchase are in general manufactured in our Jiangxi Production Base. As at the Latest Practicable Date, we have 307 manufacturing workers at the Jiangxi Production Base.

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As at the Latest Practicable Date, we owned a variety of production equipment and machineries which are material to our production process. Our Group conducts regular maintenance on our machinery and equipment, including checking for normal wear and tear, and proper functioning of the machinery and equipment. Maintenance costs incurred for production machinery and equipment for the years ended 31 December 2016, 2017 and 2018 were approximately HK\$249,000, HK\$167,000 and HK\$313,000, respectively. As advised by our PRC Legal Advisers, our Group has obtained all necessary licences and permits for the operations of the machinery and equipment during the Track Record Period and up to the Latest Practicable Date. The following table sets out information on the expected useful life and average age of our major types of production equipment and machineries as at the Latest Practicable Date:

Type of major production equipment and machinery	Quantity	Expected useful life (years)	Average age (months)
CNC machines	126	5	31
Tumblers	313	5	31
Brazing machines	83	5	33
Baking machines	45	5	28
Quality control machinery	35	5	45

We adopt straight-line method to calculate depreciation of our machinery and equipment over an estimated useful lives of five years. We did not experience any material or prolonged interruptions to our production process due to equipment or machinery failure during the Track Record Period.

The following table sets forth the estimated production capacity, actual production volumes and average utilisation rate of our production bases by product categories in our Shenzhen Production Base and Jiangxi Production Base during the Track Record Period:

	For the year ended 31 December								
	2016			2017			2018		
	Estimated production capacity (unit) (‘000) (Note 1)	Actual production volume (unit) (‘000) (Note 2)	Approximate utilisation rate (%) (Note 3)	Estimated production capacity (unit) (‘000) (Note 1)	Actual production volume (unit) (‘000) (Note 2)	Approximate utilisation rate (%) (Note 3)	Estimated production capacity (unit) (‘000) (Note 1)	Actual production volume (unit) (‘000) (Note 2)	Approximate utilisation rate (%) (Note 3)
<b>Shenzhen Production Base</b>									
Acetate frames/sunglasses	816	848	103.9	897	841	93.8	900	918	102.0
Metal frames/sunglasses	1,179	856	72.6	1,175	633	53.9	1,065	769	72.2
	1,995	1,704	85.4	2,072	1,474	71.1	1,965	1,687	85.9
<b>Jiangxi Production Base <sup>(Note 4)</sup></b>									
Acetate frames/sunglasses	93	58	62.4	409	511	124.9	1,201	1,038	86.4
Metal frames/sunglasses	160	28	17.5	591	527	89.2	1,032	779	75.5
	253	86	34.0	1,000	1,038	103.8	2,233	1,817	81.4
Total	2,248	1,790	79.6	3,072	2,512	81.8	4,198	3,504	83.5

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## BUSINESS

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*Notes:*

1. The estimated production capacity is calculated based on the following factors and assumptions:
  - (i) the designated number of eyewear products that can be produced by the machines under the critical production process (i.e. brazing machine in the brazing process for metal eyewear products, and CNC machine for the dissecting process for acetate eyewear products);
  - (ii) actual number of working days per calendar year (being 268 days, 267 days and 268 days for the years ended 31 December 2016, 2017 and 2018);
  - (iii) the planned number of production workers in the production facilities; and
  - (iv) one 8-hour shift and two hours of overtime per working day.
2. This represents the approximate actual production volume of products produced.
3. The utilisation rate is calculated based on the actual production volume for the relevant calendar year divided by the estimated production capacity during the corresponding year.
4. We only commenced production in our Jiangxi Production Base in September 2016.

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In the Shenzhen Production Base, the utilisation rate of the machineries for production of acetate frames decreased from approximately 103.9% for the year ended 31 December 2016 to 93.8% for the year ended 31 December 2017. The decrease was mainly attributable to (i) the purchase of new CNC machines in September 2016 which improved our productivity; and (ii) we gradually allocated some of our productions to the Jiangxi Production Base after it commenced operation in 2016. For the year ended 31 December 2018, the utilisation rate of the machineries for production of acetate frames in our Shenzhen Production Base increased to approximately 102.0% which was mainly due to increase in sales and production of acetate frames/sunglasses.

The utilisation rate of the machineries for production of metal frames in the Shenzhen Production Base decreased from approximately 72.6% for the year ended 31 December 2016 to approximately 53.9% for the year ended 31 December 2017. The decrease was mainly attributable to relocation of some of our staff from the Shenzhen Production Base to the Jiangxi Production Base. For the year ended 31 December 2018, the utilisation rate of the machineries for production of metal frames in our Shenzhen Production Base increased to approximately 72.2% which was mainly due to increase in sales and production of metal frames/sunglasses.

We expanded our production facility to our self-owned Jiangxi Production Base in 2016. In the Jiangxi Production Base, the utilisation rate of the machineries for production of acetate frames and metal frames remained low at approximately 62.4% and 17.5% for the year ended 31 December 2016, respectively, primarily due to our Jiangxi Production Base was still in initial stage of operations. For the year ended 31 December 2017, the utilisation rate of the machineries for production of acetate frames increased significantly to approximately 124.9% due to the increase in purchase orders made by our customers, resulting in our manufacturing workers working overtime. For the same period, the utilisation rate of the machineries for production of metal frames increased to approximately 89.2% due to increase in sales and production of metal frames/sunglasses. For the year ended 31 December 2018, the machineries for production of utilisation rate of acetate frames and metal frames in our Jiangxi Production Base decreased to approximately 86.4% and 75.5%, respectively, which was mainly due to increased estimated production capacity after obtaining the approval from the relevant government authorities in the PRC to increase our maximum annual production capacity.

### **Subcontracting arrangements**

In addition to our production bases, we engage subcontractors in the PRC who are Independent Third Parties to manufacture products and perform certain production steps at their facilities for us from time to time with the consent of our customers.

As we do not possess the necessary production facilities to conduct the electroplating process, we subcontract such process to subcontractors. In addition, considering our utilisation rate in our production bases and in order to increase the flexibility in our production, we adopt a flexible production policy whereby we decide whether to manufacture products internally or through third parties. We may subcontract the manufacturing of the entire eyewear product or part of the production process (such as brazing) to our subcontractors.

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As some of our customers' consent are required before engaging in any subcontracting activity, we only subcontract the manufacture of products or the performance of certain production steps to our subcontractors provided we have obtained the consent of such customers. As part of our production planning, after receiving an order from our customers, we may place order to our subcontractors specifying details including delivery schedule, quantity, unit price and payment. Our subcontractors are responsible for manufacturing the products/carrying out the outsourced procedures in accordance with our specifications. After the work in progress and entire eyewear products are inspected by our quality control personnel in accordance with our quality control standards, they will be assembled, packaged and delivered by our staff. Should we spot that the work in progress/finished goods differ from the agreed technical requirements, we will arrange product return with our subcontractors. Raw material for production may either be provided by us or procured by the subcontractors.

Please see the paragraph headed "Suppliers and Subcontractors" in this section below for more details of our subcontractors and subcontracting arrangements.

### CUSTOMERS

During the Track Record Period and up to the Latest Practicable Date, we served over 140 customers. Our customers are mainly renowned international eyewear retailers such as Customer A and Specsavers as well as trading companies and licensed brand owners. During the Track Record Period, we exported and sold our products to our overseas customers directly, which were from countries including Netherlands, Italy, United Kingdom and the United States. We did not appoint any distributors to conduct sales on our behalf.

Our customers with sizeable operations place relatively high standards on their suppliers' capabilities in procurement, quality control and logistics management and opt for working with suppliers whom they are familiar with.

During the Track Record Period, our products were sold to customers located in 36 countries around the world, and Europe was our largest market. The following table sets out information about our revenue by geographical segment for the years ended 31 December 2016, 2017 and 2018:

	For the year ended 31 December					
	2016		2017		2018	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Key European Countries						
(Note 1)	228,099	71.8	262,413	72.3	292,020	69.3
Hong Kong	35,769	11.2	38,357	10.6	41,246	9.8
United States	21,963	6.9	17,916	4.9	20,577	4.9
Others (Note 2)	32,165	10.1	44,089	12.2	67,251	16.0
	<u>317,996</u>	<u>100.0</u>	<u>362,775</u>	<u>100.0</u>	<u>421,094</u>	<u>100.0</u>

Notes:

- Key European Countries include Netherlands, Italy, United Kingdom, France and Hungary.
- Others include, without limitation, the PRC, Japan, South Korea, India, Canada, Spain, Germany, Australia, Argentina, Brazil, Mexico, South Africa and United Arab Emirates.



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Our revenue attributable to customers in US (based on location of delivery) represented approximately 6.9%, 4.9% and 4.9% of our total revenue for the years ended 31 December 2016, 2017 and 2018, respectively. In December 2018, the United States and the PRC have entered into a 90-day trade truce and agreed to delay an increase in tariffs from 10% to 25% on approximately USD200.0 billion worth of Chinese goods (which was originally set to take effect on 1 January 2019), and agreed not to impose any additional tariffs after 1 January 2019, according to the Frost & Sullivan Report. As at the Latest Practicable Date, the trade negotiation between the two countries ended without reaching a deal in May 2019, and thereafter the United States announced to raise punitive tariffs on US\$200 billion of imports from China from 10% to 25% which took effect on 10 May 2019. In response, the PRC government announced that it will impose tariffs ranging from 5% to 25% on US\$60 billion worth of US goods from 1 June 2019. Please refer to the section headed “Risk Factors – Risks relating to our business – Our financial performance and results of operations may be adversely affected by trade protectionism and global trade policies” for the risks associated thereto.

For the years ended 31 December 2016, 2017 and 2018, the aggregate revenue attributable to our top five customers were HK\$257.7 million, HK\$280.6 million and HK\$324.0 million, respectively, which accounted for approximately 81.1%, 77.3% and 77.0% of our total revenue, respectively. For the same period, revenue attributable to our largest customer was approximately HK\$89.0 million, HK\$100.2 million and HK\$120.9 million, which accounted for approximately 28.0%, 27.6% and 28.7% of our total revenue, respectively. Save for one customer headquartered in the United States, all of our five largest customers are based in Europe. Up to the Latest Practicable Date, we had established a relationship with our five largest customers ranging from two to nine years during the Track Record Period.

To the best knowledge and belief of our Directors after making all reasonable enquiries, none of our Directors or any Shareholders, who owns more than 5% of the share capital of our Company immediately following completion of the Share Offer and the Capitalisation Issue, nor any of their respective associates, has any interest in any of the five largest customers of our Group for each of the financial year over the Track Record Period.

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The table below sets out the revenue from our Group's top five customers based on the ranking in respect of revenue generated by our Group during the Track Record Period:

*For the year ended 31 December 2016*

Rank	Customer <sup>(Note)</sup>	Principal business activities	Type(s) of products provided by our Group	Approximate years of relationship with our Group as at the Latest Practicable Date	Typical credit term offered to our customers	Payment method	Revenue (HK\$'000)	As a percentage of revenue (%)
1	Customer A	An international eyewear retail group headquartered in the Netherlands engaged in eyewear retailing with over 7,000 stores	Spectacle frames and sunglasses	4	60 days	Bank transfer	89,008	28.0
2	Customer B	An international eyewear retail group headquartered in the United Kingdom engaged in eyewear retailing with over 1,500 optical stores in Europe and Australia	Spectacle frames and sunglasses	9	30 days	Bank transfer	87,654	27.6
3	Marcolin	An owner of over 28 licensed brands of apparel and eyewear products	Spectacle frames and sunglasses	7	90-105 days	Bank transfer	38,717	12.2
4	De Rigo	An owner headquartered in Italy of licensed eyewear brands	Spectacle frames and sunglasses	5	90 days	Bank transfer	34,310	10.8
5	Customer C	An apparel group headquartered in the United States engaged in the design, production and distribution of branded apparel, swimwear, footwear and accessories	Spectacle frames and sunglasses	8	60 days	Bank transfer	7,987	2.5
<b>Total</b>							<b>257,676</b>	<b>81.1</b>

*Note:* We have attempted to seek written consents from each of our top five customers in each of the year ended 31 December 2016, 2017 and 2018 for disclosure of their identities. However, as at the Latest Practicable Date, save for De Rigo and Marcolin, we had not received any written consent from such customers in disclosing the commercial terms of their business relationship with us. Our Directors after consulting the legal advisers are of the view that, without written consent provided by the respective customers, in addition to any explicit confidentiality clause stipulated in the contracts restricting the disclosure of the identities of the parties and other information to the agreement between the parties, our Group is also subject to confidentiality duties not to disclose identities of our customers under common law.

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*For the year ended 31 December 2017*

Rank	Customer <sup>(Note)</sup>	Principal business activities	Type(s) of products provided by our Group	Approximate years of relationship with our Group as at the Latest Practicable Date	Typical credit term offered to our customers	Payment method	Revenue (HK\$'000)	As a percentage of revenue (%)
1	Customer A	An international eyewear retail group headquartered in the Netherlands engaged in eyewear retailing with over 7,000 stores	Spectacle frames and sunglasses	4	60 days	Bank transfer	100,208	27.6
2	Customer B	An international eyewear retail group headquartered in the United Kingdom engaged in eyewear retailing with over 1,500 optical stores in Europe and Australia	Spectacle frames and sunglasses	9	30 days	Bank transfer	81,615	22.5
3	Marcolin	An owner of over 28 licensed brands of apparel and eyewear products	Spectacle frames and sunglasses	7	90-105 days	Bank transfer	53,966	14.9
4	De Rigo	An owner headquartered in Italy of licensed eyewear brands	Spectacle frames and sunglasses	5	90 days	Bank transfer	32,271	8.9
5	Customer D	An e-commerce eyewear retailer	Sunglasses	2	60 days	Bank transfer	12,511	3.4
<b>Total</b>							<b>280,571</b>	<b>77.3</b>

*Note:* We have attempted to seek written consents from each of our top five customers in each of the year ended 31 December 2016, 2017 and 2018 for disclosure of their identities. However, as at the Latest Practicable Date, save for De Rigo and Marcolin, we had not received any written consent from such customers in disclosing the commercial terms of their business relationship with us. Our Directors, after consulting the legal advisers, are of the view that without written consent provided by the respective customers, in addition to any explicit confidentiality clause stipulated in the contracts restricting the disclosure of the identities of the parties and other information to the agreement between the parties, our Group is also subject to confidentiality duties not to disclose identities of our customers under common law.

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*For the year ended 31 December 2018*

Rank	Customer <sup>(Note)</sup>	Principal business activities	Type(s) of products provided by our Group	Approximate years of relationship with our Group as at the Latest Practicable Date	Typical credit term offered to our customers	Payment method	Revenue (HK\$'000)	As a percentage of revenue (%)
1	Customer B	An international eyewear retail group headquartered in the United Kingdom engaged in eyewear retailing with over 1,500 optical stores in Europe and Australia	Spectacle frames and sunglasses	9	30 days	Bank transfer	120,938	28.7
2	Customer A	An international eyewear retail group headquartered in the Netherlands engaged in eyewear retailing with over 7,000 stores	Spectacle frames and sunglasses	4	60 days	Bank transfer	81,541	19.4
3	Marcolin	An owner of over 28 licensed brands of apparel and eyewear products	Spectacle frames and sunglasses	7	90-105 days	Bank transfer	59,850	14.2
4	De Rigo	An owner headquartered in Italy of licensed eyewear brands	Spectacle frames and sunglasses	5	90 days	Bank transfer	47,425	11.3
5	Customer D	An e-commerce eyewear retailer	Spectacle frames and sunglasses	2	60 days	Bank transfer	14,254	3.4
<b>Total</b>							<b>324,008</b>	<b>77.0</b>

*Note:* We have attempted to seek written consents from each of our top five customers in each of the year ended 31 December 2016, 2017 and 2018 for disclosure of their identities. However, as at the Latest Practicable Date, save for De Rigo and Marcolin, we had not received any written consent from such customers in disclosing the commercial terms of their business relationship with us. Our Directors, after consulting the legal advisers, are of the view that without written consent provided by the respective customers, in addition to any explicit confidentiality clause stipulated in the contracts restricting the disclosure of the identities of the parties and other information to the agreement between the parties, our Group is also subject to confidentiality duties not to disclose identities of our customers under common law.

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As at the Latest Practicable Date, our Group had no dispute with or claim from our customers which would have a material impact on our business, financial condition or results of operations.

### **General terms of agreements with customers**

We generally enter into framework sale and purchase agreements with our customers and make subsequent purchase orders for each transaction. Such agreements are legally binding and include terms and conditions covering the following aspects:

- *Price and payment terms:* The agreement normally specifies that the price shall be stated in the purchase order. The customers shall settle the payment within a certain time from the date of delivery of our products.
- *Sales rebate:* We will provide sales rebate normally ranging from 1.0% to 4.0%, whereby the rebate rate increases as the total sales amount or units purchased from our Group within the contract period increases.
- *Delivery:* We normally adopt FOB Hong Kong or the PRC as our delivery term, meaning the control of the products are passed to the customer at the designated port or freight forwarder at the port of origin and the sale is recognised by our Group at this point in time. We employ external courier companies to deliver our products to ports and our customers are responsible for the shipment and insurance thereon.
- *Right of inspection:* Our customers have the right to inspect and monitor the manufacturing of our products.
- *Intellectual property:* Our products will not infringe the intellectual property rights of any third party and we will indemnify our customers for any liability, loss and costs suffered or incurred by them as a result of such infringement.
- *Liability:* We shall be liable for any loss or damage caused by faulty delay or failure in delivery of goods to the customer. During the Track Record Period, we did not encounter any material faulty delay or failure of delivery.
- *Termination:* Either party may at any time by giving the other party certain period's prior written notice to terminate the agreements. During the Track Record Period, none of our agreements were terminated by reason of material breach by either party to the agreement.

### **Customer concentration**

For the years ended 31 December 2016, 2017 and 2018, our percentage of revenue attributable to our top five customers amounted to approximately 81.1%, 77.3% and 77.0%, while the percentage of our revenue attributable to our largest customer for the corresponding period amounted to approximately 28.0%, 27.6% and 28.7%, respectively.

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### **Sustainability of our business**

There is no guarantee that we can maintain our business relationship with our top five customers. However, our Directors consider that the concentration of customers would not render our Company unsuitable for Listing after considering the following:

#### *Industry practice*

According to the Frost & Sullivan Report, it is an industry norm for sizeable eyewear retailers, trading companies and licensed brand owners to consolidate their suppliers to a limited number as their procurement strategy having considered their quality of products, customer service and years of cooperation, as such strategy would generally result in better customer service, smooth cooperation and consistency in delivering quality products. As such, we believe it is commercially viable as well as within industry practice for our top five customers (which include sizeable eyewear retailers and licensed brand owners) to continue to order from our Group.

#### *Our production facilities are able to manufacture for and we have the necessary resources and design capability to serve other customers*

Each of our Shenzhen Production Base and our Jiangxi Production Base has three production lines which are readily adjustable for switching production from one product to another, and enables us to offer products to our customers not only restricted to our top five customers. Furthermore, our technical know-how of our production team enable us to manufacture products not specifically designed for one customer. If any of our top five customers significantly reduces or ceases to place orders with us, we can allocate our production capacity to manufacture eyewear products for other customers.

#### *Diversity of geographical coverage of the sales of our Group enables us to reduce reliance on any economic downturn of a particular country*

With a wide geographical coverage of our sales covering 36 countries during the Track Record Period, we are less susceptible in the event that a particular country undergoes economic downturn leading to a decrease in the demand of our products.

#### *Industry landscape*

According to the Frost & Sullivan Report, the outlook of Europe's retail eyewear market is expected to grow from USD24.3 billion in 2019 to USD28.6 billion in 2023 at a CAGR of 4.2%. With our reputation, reliability in providing quality products, our Directors believe we are well prepared to take on new customers and explore new business opportunities.

#### *Introduction of new customers*

During the Track Record Period and up to the Latest Practicable Date, we were engaged by 37 new customers, such as Customer D. Our Directors are of the view that the eyewear manufacturing market is fragmented and therefore, offer opportunities for us to expand, and we are able to reduce the degree of customer concentration in the future.

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### *Experienced management team*

Our management has in-depth knowledge of the eyewear industry and our Group's operations. Each of our executive Directors have over 15 years of experience in the eyewear industry. Furthermore, we have a stable management team which enables us to have a comprehensive understanding of the market conditions of the eyewear industry and to operate our business effectively.

## SALES AND MARKETING

### Marketing and promotion

Our sales and marketing department is responsible for, among others, the sales and promotion of our products, solicitation of new customers, enquiries handling from potential customers, customer services, preparation for participation in exhibitions and production of marketing materials. As at the Latest Practicable Date, we have 44 full-time employees responsible for our sales and marketing activities. To increase public awareness of our products, we placed advertisements through different media, such as social media platforms and the internet. From time to time, our management attend both Hong Kong Optical Fair and international industry exhibitions. During the Track Record Period, our selling and distribution expenses amounted to approximately HK\$12.1 million, HK\$15.6 million and HK\$16.6 million, respectively.

In addition to day-to-day customer services, our staff in the sales and marketing department (the majority of which is based in our production facilities in the PRC) is also responsible for the routine sales and marketing activities of our Group, following up and processing administrative work for sales orders from all customers in 36 countries including European countries. Having considered (i) our customers are widely spread to 36 countries where Europe is our largest market and in a different time zone; (ii) the need to provide timely feedback and communication to our overseas customers efficiently; and (iii) consultants from a similar culture with our customers can assist in building up rapport with our customers facilitating the discussion between our customers and our Group and maintaining customer relationship, our Directors believe that it is beneficial to our Group to engage overseas consultants. As such, we engaged four consultants to assist our sales and marketing department, who are responsible for our overseas export sales markets to serve our overseas customers in the customer relationship level during the Track Record Period and up to the Latest Practicable Date. The table below sets out the background of our consultants:

Name	Nationality	Age	Education	Years of working experience in the eyewear industry
Consultant A	Italian	67	Diploma	42 <i>(Note 1)</i>
Mr. Russell <i>(Note 5)</i>	British	59	Associate degree	38 <i>(Note 2)</i>
Consultant B	Italian	51	Bachelors degree	33 <i>(Note 3)</i>
Consultant C	Italian	50	Bachelors degree	22 <i>(Note 4)</i>

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*Notes:*

1. Consultant A has 42 years of experience serving in a number of companies engaging in the eyewear industry, including employed by an Italian eyewear manufacturer and licensed brand owner for 10 years as the export manager and frame designer.
2. Mr. Russell has served in a number of companies engaging in the eyewear industry for 38 years mainly as a sales manager for optical products, including serving as the sales manager of (i) a Hong Kong eyewear company for ten years responsible for sales and marketing operations; and (ii) another Hong Kong eyewear company for 16 years.
3. Consultant B worked as the business development director of an optical group listed in Hong Kong from 2000 to 2013 and has over 33 years of experience serving in a number of companies engaging in the eyewear industry.
4. Consultant C has 22 years of experience in the eyewear industry, including eight years of employment as a sales manager and export manager in Italian eyewear companies.
5. Mr. Russell is a director and a shareholder of Central Designs. He became acquainted to Mr. Ken Kwok in around 2011 at a business event. Mr. Ken Kwok knew that Mr. Russell has extensive experience in optical industry and possessed a developed sales and business network and during that period of time our Group has developed and continued to expand the European market.

In 2014, our Group planned to develop new markets other than Europe, and our management considered the experience and network that could be contributed by Mr. Russell would be beneficial to our Group. Therefore Mr. Joe Kwok, our executive Director, proposed to Mr. Russell to join our Group as a consultant to explore new markets, and build up our customer base in US, Canada and Europe. At the material times, Mr. Russell showed his interests to be involved certain managerial matters, and as such our Group decided to allot shares in Central Designs to Mr. Russell, pursuant to which the sharing of profits in Central Designs would serve as a motivation for Mr. Russell.

Central Designs was initially set up and wholly-owned by Mr. Joe Kwok in September 2014. In November 2014, additional shares were allotted to Mr. Joe Kwok and Mr. Russell, and as a result, Central Designs was owned as to 50% by Mr. Joe Kwok and 50% by Mr. Russell, respectively.

Our Group and Mr. Russell subsequently entered into a consultancy agreement pursuant to which Mr. Russell agreed to provide consultancy services for our Group.

Having considered (i) the role of Mr. Russell as a consultant in our Group; (ii) the number of customers served by Mr. Russell and the amount of revenue attributable to these customers; and (iii) the terms of the shareholders' agreement entered into by Fame Investment and Mr. Russell, the Board is of the view that Mr. Russell was not a member of the Board, a Shareholder or regarded as senior management of our Group.



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The salient terms of the consultancy agreements are as follows:

**Contractual term:** The agreement is generally effective for a fixed period of time (generally around one to ten years) and may be renewed by mutual consent of both parties.

**Obligation of the consultants:** Our consultants are responsible for maintaining business relationship with and providing customer service to our existing customers, and soliciting new customers. All activities by our consultants were carried out under the instructions of our management.

The consultancy agreements with Consultant A, Mr. Russell and Consultant B contain an exclusivity clause pursuant to which each of Consultant A, Mr. Russell and Consultant B agrees to be engaged as the Group's exclusive consultant to provide the services to the Group in accordance with the agreements.

**Consultancy fee:** We will pay to the consultants a monthly consultancy fee ranging from approximately HK\$18,000 to HK\$55,000 as stipulated in the respective agency agreement, plus a year-end commission ranging from 0.5% - 5.0% calculated based on the sales contributed/served by such consultant.

**Minimum sales target:** There is generally no minimum sales target for the consultant.

**Termination:** Either party may terminate the agreement upon prior written notice to the other party in accordance with the agreement.

The table below set out the consultancy fees and year-end commission paid to each of our consultants during the Track Record Period:

Name	For the year ended 31 December					
	2016		2017		2018	
	Consultancy fee	Year-end commission	Consultancy fee	Year-end commission	Consultancy fee	Year-end commission
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Consultant A	272	827	297	1,051	278	954
Mr. Russell	347	–	335	–	347	–
Consultant B	617	352	688	318	638	752
Consultant C	–	–	203	–	197	–
<b>Total:</b>	<b>1,236</b>	<b>1,179</b>	<b>1,523</b>	<b>1,369</b>	<b>1,460</b>	<b>1,706</b>

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According to Frost & Sullivan, it is within industry norm for eyewear manufacturers to engage overseas consultants to maintain business relationship with and providing customer service to existing customers, and solicit new customers, where the consultants can easily meet the customers physically and provide timely customer service. Our customers place orders with our Group directly and the role of our consultants is to facilitate our Group to attend to our customers' requests at a timely manner. To ensure quality customer experience, while our overseas consultants meet our customers regularly at our customers' preferred locations to facilitate the work of our sales and marketing department, our sales and marketing department staff based in PRC on the other hand liaise with other departments in our production bases on a daily basis effectively to follow up on the production schedule and handle any requests raised by our customers. The table below set out the revenue attributable to the customers and the numbers of customers which are served by each of our consultants during the Track Record Period:

Name	For the year ended 31 December					
	2016		2017		2018	
	HK\$'000	No. of customers	HK\$'000	No. of customers	HK\$'000	No. of customers
Consultant A	132,161	12	159,526	11	139,118	11
Mr. Russell <sup>Note</sup>	3,664	3	2,247	5	5,906	10
Consultant B	35,821	4	45,565	4	61,882	4
Consultant C	—	—	194	1	703	6
Total:	<u>171,646</u>	<u>19</u>	<u>207,532</u>	<u>21</u>	<u>207,609</u>	<u>31</u>

*Note:*

The number of customers referred by Mr. Russell was two customers with revenue of approximately HK\$2.8 million accounted for 0.9% of total revenue, two customers with revenue of approximately HK\$1.1 million accounted for 0.3% of total revenue, six customers with revenue of approximately HK\$2.5 million accounted for 0.6% total revenue for the year ended in 31 December in 2016, 2017 and 2018 respectively.

In addition to our consultants and the sales and marketing team, our management is committed to provide quality service to our customers by visiting them regularly and our key customers have direct access to our management.

To the best knowledge and belief of our Directors after making all reasonable enquiries, (i) save for Mr. Russell who is a director and shareholder of Central Designs and the respective consultancy agreements with the consultants, none of the consultants has any past or present relationship with the Group, their shareholders, directors, senior management or any of their associates, nor has any interests in any other company and business which competes or is likely to compete, directly or indirectly, with the business of our Group; (ii) the consultants have not provided any similar consultancy services to clients which operate in the manufacturing of spectacle frames and sunglasses other than our Group during the Track Record Period or from the commencement of their business relationship between the Group and the consultants (whichever is earlier) and up to the Latest Practicable Date.

### **Credit policy and payment methods**

Our sales to customers generally take place in the form of sales on credit. We generally issue invoices to our customers after the eyewear products are delivered to our customers. We grant our customers credit period ranging from 30 to 120 days from the invoice date, whereby the length of the credit period granted varies on a case-by-case basis depending on the customer's reputation and credibility, payment history and business relationship with our Group. Payment from our customers is usually settled by way of bank transfer. For new customers, we normally require them to make the payment in advance or by cash on delivery. As at 31 December 2016, 2017 and 2018, our trade receivables were approximately HK\$76.2 million, HK\$79.7 million and HK\$91.0 million, respectively, of which approximately HK\$18.5 million, HK\$16.5 million and HK\$18.6 million were past due but not impaired. For further details of our credit policy, please refer to the section headed "Financial Information – Discussion of Selected Items from the Consolidated Statements of Financial Position – Trade receivables" in this prospectus.

In general, our customers settle our invoices in USD. During the Track Record Period, a majority of our revenue are denominated in USD but we incur our manufacturing costs which are mainly denominated in RMB. For the year ended 31 December 2016 and 2018, our Group experienced a foreign exchange gain of approximately HK\$3.2 million and HK\$4.7 million, respectively, whereas we recorded a foreign exchange loss of approximately HK\$0.7 million for the year ended 31 December 2017. As most of our operating expenses are denominated in RMB and most of our sales are denominated and settled in USD, our Group entered into two foreign exchange forward contracts with two licensed banks in Hong Kong to mitigate our exposure to foreign exchange risks in 2014 which expired during the Track Record Period. After the expiry of our foreign exchange forward contracts in 2016, we have not entered into any derivative financial instruments. Please refer to the section headed "Risk Factors – Risks Relating to our Business – We are exposed to foreign exchange risks" in this prospectus for further details in our foreign currency risk.

### **Allowance policy**

Our provision policy for allowance for doubtful debts on trade receivables is based on estimated irrecoverable amounts determined by reference to past default experience of the counterparty and analysis of counterparty's current financial positions as under HKAS 39 for the two years ended 31 December 2017. Our Group applies the simplified approach to provide for expected credit loss prescribed by HKFRS 9 on 1 January 2018. The debtors are grouped under a provision matrix based on shared credit risk characteristics by reference to past default experience, current past due exposure of the debtor and forward-looking information. In order to protect our Group against the risk of financial default of our customers, we have purchased insurance to insure against our credit risk.

We had not made any allowance of doubtful debt of trade receivables for the years ended 31 December 2016 as the trade receivables past due but not impaired were from customers with no history of default during the Track Record Period. For the year ended 31 December 2017, our Group has made allowance of doubtful debt of trade receivables of approximately HK\$0.4 million, which related to customers in unexpected financial difficulties. For the year ended 31 December 2018, the allowance of doubtful debt recorded for the year ended 31 December 2017 of approximately HK\$0.4 million was written off after our Directors have considered the recoverability of such allowance of doubtful debt. Our Group does not hold any collateral or other credit enhancements over this balance.

### **Pricing policy**

Our pricing policy is on a "cost-plus" basis. As each product has its own specifications or requirements, the pricing of each product is negotiated and determined on a case by case basis. We determine our selling price after considering (i) the specifications and quantity of the products; (ii) anticipated fluctuation in exchange rate (if applicable); (iii) the prevailing market conditions and competition; (iv) our production costs; (v) determination of a reasonable profit margin; and (vi) commercial terms offered by our customers such as credit terms.

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Our Group provides sales rebate on a yearly basis to certain of our customers. We used the progressive rate arrangement, whereby the rebate rate (normally ranging from 1.0% to 4.0%) increases as the total sales amount or units purchased from our Group within the contract period increases. For the years ended 31 December 2016, 2017 and 2018, the sales rebates we offered to our customers amounted to HK\$1.1 million, HK\$1.9 million and HK\$1.8 million, respectively.

For the years ended 31 December 2016, 2017 and 2018, three, two and two customers were entitled to our sales rebate. The table below set out the breakdown of the sales rebate granted to the three customers:

Name	For the year ended 31 December		
	2016	2017	2018
	HK\$'000	HK\$'000	HK\$'000
Customer E	23	161	8
Customer F	77	—	—
Customer G	1,018	1,742	1,824
	<u>          </u>	<u>          </u>	<u>          </u>
<b>Total:</b>	<b><u>1,118</u></b>	<b><u>1,903</u></b>	<b><u>1,832</u></b>

According to Frost & Sullivan, the Group's sales rebate policy and its rebate rate are in line with the industry practice.

### After-sales services

During the Track Record Period and up to the Latest Practicable Date, we did not have any material product liability claims on our eyewear products, nor did we experience any material product recalls, exchange or sales returns.

### SEASONALITY

Our sales volume has historically been affected by seasonality. As our products are generally sold by our customers (generally being eyewear retailers, trading companies and licenced brand owners) to their end consumers, the demand for our products fluctuates in accordance with fluctuations in the demand from the end consumers. For further information, please refer to the section headed "Risk Factors – Risks Relating to our Business – Our Group's operating results may fluctuate due to seasonality and other factors" in this prospectus.

In general, sales for our Group's products is higher in December and January, and June and July whereby the revenue of each of these months contribute over 10% of the revenue in the respective year. Our Directors believe it is due to the peak season for eyewear product sales driven by higher consumer spending during festive seasons and summer seasonal sales in Europe generally. Accordingly, comparison of sales and operating results from different periods in any given financial year may not be relied upon as indicators of our performance.

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### RAW MATERIALS PROCUREMENT AND INVENTORY CONTROL

#### Raw materials

The major raw materials which are used in the production of our eyewear products are acetate, metal, lens, parts and accessories. For the years ended 31 December 2016, 2017 and 2018, the cost of raw materials amounted to approximately HK\$81.6 million, HK\$96.1 million and HK\$117.8 million, respectively. During the Track Record Period, our Group mainly sourced its raw materials from suppliers based in the PRC.

The table below sets out the breakdown of our total purchase of raw materials during the Track Record Period:

	For the year ended 31 December					
	2016		2017		2018	
	Amount of Purchases (HK\$'000)	% of total purchases (%)	Amount of Purchases (HK\$'000)	% of total purchases (%)	Amount of Purchases (HK\$'000)	% of total purchases (%)
Acetate	34,071	41.7	34,143	35.6	36,249	30.8
Metal	12,789	15.7	18,197	18.9	31,948	27.1
Lens	5,061	6.2	12,219	12.7	17,447	14.8
Parts and accessories <i>(note)</i>	29,688	36.4	31,551	32.8	32,174	27.3
<b>Total</b>	<b>81,609</b>	<b>100.0</b>	<b>96,110</b>	<b>100.0</b>	<b>117,818</b>	<b>100.0</b>

*Note:* Mainly included nose pads, screws and hinges

#### Procurement

Our procurement department is responsible for the purchase of raw materials and production equipment, the evaluation and selection of suppliers, and the determination and maintenance of the minimum inventory level. As at the Latest Practicable Date, we had 14 procurement personnel. As our production process is usually sales driven and to minimise obsolescence of raw materials, we generally only procure the required raw materials upon customers' confirmation of their purchase orders save for commonly used parts. After our customers confirm the purchase orders, the procurement department will check against the inventory level of each type of raw materials and thereafter confirm with the supplier for the quantity of each type of raw materials needed, if necessary. Upon our customers' requests, we may also purchase raw materials from a particular supplier. After the raw materials arrive at our warehouse, our quality control personnel will inspect the raw materials before arranging for storage.

It takes approximately one month for the raw materials to be delivered after our procurement department places a purchase order.

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### Measures taken to manage the price risk of raw materials

To minimise the risk of over-reliance on one single source of supply and be negatively affected should that supplier increase the price of the raw materials, we maintain more than one supplier for each type of our major raw materials. In addition, we generally procure raw materials upon receipt of purchase orders from our customers, save for raw materials that are commonly used in our production process, whereby we place orders with our suppliers from time to time based on the inventory level recorded in our ERP system and designate specific personnel to monitor the consumption of raw materials. We make use of our ERP system to monitor our raw materials procurement cost. Such system has functions including profiling on and monitoring of suppliers, purchase records including price and quantity, which facilitates our management to review the pricing of our raw materials from time to time. We were generally able to pass the increase in the costs of raw materials to our customers as we adopt a cost-plus pricing policy. In the event of raw material price fluctuations, we may negotiate with our customers for a price adjustment before they confirm their purchase orders with us. Please also refer to the section headed “Risk Factors – Risks Relating to our Business – We generally do not enter into long-term supply agreements with our suppliers” in this prospectus for details. During the Track Record Period, we did not experience any material fluctuation on the cost of raw materials.

### INVENTORY CONTROL

Our inventories mainly consist of raw materials, work in progress, finished products and goods-in-transit (goods which were in the transportation and delivery stage to our customers).

The following table sets forth a breakdown of our inventories as at the dates indicated:

	As at 31 December		
	2016	2017	2018
	HK\$'000	HK\$'000	HK\$'000
Raw materials	4,142	10,080	11,011
Work in progress	11,435	26,522	27,788
Finished goods	13,855	4,404	9,292
Goods-in-transit	1,054	3,864	4,114
	<u>          </u>	<u>          </u>	<u>          </u>
Total	<u>30,486</u>	<u>44,870</u>	<u>52,205</u>

As most of our products are produced after receiving purchase orders from our customers, there is no significant risk of inventory obsolescence. Generally, provision will be made for inventories which are considered obsolete after taking into account the aging of the inventory items, movement and usefulness or residual value of the inventories. No provision for inventories were made during the Track Record Period. We did not experience any material shortage of supply or overstock of inventory during the Track Record Period and up to the Latest Practicable Date.

We have established warehouse management regulations which cover various aspects such as incoming, outgoing, storage, delivery and transportation of materials to ensure proper management and control of our inventories. The inventory level of our raw materials, work in progress, finished products and goods-in-transit are closely monitored through the ERP system. Our production coordination department will conduct regular and random inspections to ensure compliance with our warehouse management regulations.

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As at 31 December 2016, 2017 and 2018, our inventories amounted to approximately HK\$30.5 million, HK\$44.9 million and HK\$52.2 million, respectively, which represented 17.9%, 21.4% and 30.1% of our total current assets respectively. Our average inventory turnover days were 45 days, 51 days and 55 days during the Track Record Period, respectively.

### SUPPLIERS AND SUBCONTRACTORS

We generally procure the raw materials used in our production process from suppliers based in the PRC. In addition to suppliers, we also engage subcontractors to manufacture entire eyewear products or perform part of our production process with the consent of our customers. We select suppliers and subcontractors based on a number of factors, including their product quality and reliability, pricing and reputation. Some of our suppliers are designated pursuant to the instructions of our customers.

We maintain a list of our approved suppliers/subcontractors, which is reviewed and updated regularly. As at the Latest Practicable Date, we had an aggregate of over 200 suppliers and subcontractors on our approved supplier/subcontractor list. The credit terms offered by these suppliers and subcontractors ranged from 30 to 90 days, and we settle payments with our suppliers/subcontractors in RMB or HKD by way of bank transfer or cheque.

During the Track Record Period, we had not encountered any material shortage, delay or major difficulty in procuring raw materials from our suppliers; nor experienced any material interruption of operations as a result of any disputes between our Group and the subcontractors or other uncertainties and contingencies. Our Directors consider that we do not have difficulty to find alternative suppliers of the required raw materials for our Group as there are many suppliers of the required raw materials in the PRC at prices comparable to those being offered by our existing suppliers. We are also of the view that as there are many subcontractors providing similar services to our Group at prices competitive to those being offered by our existing subcontractors, we have no difficulty to find alternative subcontractors.

The total purchases of our Group amounted to approximately HK\$212.8 million, HK\$235.7 million and HK\$251.8 million, respectively, during the Track Record Period. The amount of purchases of our five largest suppliers/subcontractors of our Group in aggregate amounted to approximately HK\$63.0 million, HK\$74.3 million and HK\$60.2 million, respectively, during the Track Record Period, which accounted for approximately 29.6%, 31.6% and 23.9% of our total purchases during the same period. For the years ended 31 December 2016, 2017 and 2018, our amount of purchases from our largest supplier/subcontractor amounted to approximately HK\$15.5 million, HK\$20.1 million and HK\$16.0 million, respectively, which accounted for approximately 7.3%, 8.5% and 6.3% of our total purchases, respectively. We had established a relationship of a range from over three to six years with our five largest suppliers/subcontractors during the Track Record Period.

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The following tables set out certain information of our Group's top five suppliers/subcontractors based on the amount of purchases incurred during the Track Record Period:

*For the year ended 31 December 2016*

Rank	Supplier/Subcontractor	Principal business activities	Type(s) of products/services provided to our Group	Approximate years of relationship with our Group as at the Latest Practicable Date	Typical credit term offered by our suppliers/subcontractors	Payment method	Amount of purchases (HK\$'000)	As a percentage of total purchases (%)
1	Supplier/Subcontractor A	A PRC company engaged in manufacturing of eyewear raw materials and products	Acetate, and subcontracting services	6	60 days	Cheque	15,495	7.3
2	Subcontractor B	A PRC company engaged in electroplating and manufacturing of eyewear parts and products	Electroplating and subcontracting services	6	60 days	Cheque	13,746	6.5
3	Supplier/Subcontractor C	A PRC company engaged in manufacturing of eyewear raw materials and products	Metal, and subcontracting services	6	60 days	Cheque	11,372	5.3
4	Supplier/Subcontractor D	A PRC company engaged in manufacturing of eyewear raw materials and products	Metal, and subcontracting services	6	60 days	Cheque	11,320	5.3
5	Supplier/Subcontractor E	A PRC company engaged in manufacturing of eyewear raw materials and products	Acetate, and subcontracting services	5	60 days	Cheque	11,058	5.2
Total							62,991	29.6



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*For the year ended 31 December 2017*

Rank	Supplier/Subcontractor	Principal business activities	Type(s) of products/ services provided to our Group	Approximate years of relationship with our Group as at the Latest Practicable Date	Typical credit term offered by our suppliers/ subcontractors	Payment method	Amount of purchases (HK\$'000)	As a percentage of total purchases (%)
1	Supplier/Subcontractor A	A PRC company engaged in manufacturing of eyewear raw materials and products	Acetate, and subcontracting services	6	60 days	Cheque	20,078	8.5
2	Supplier/Subcontractor E	A PRC company engaged in manufacturing of eyewear raw materials and products	Acetate, and subcontracting services	5	60 days	Cheque	18,521	7.9
3	Supplier/Subcontractor C	A PRC company engaged in manufacturing of eyewear raw materials and products	Metal, and subcontracting services	6	60 days	Cheque	15,241	6.5
4	Supplier/Subcontractor D	A PRC company engaged in manufacturing of eyewear raw materials and products	Metal, and subcontracting services	6	60 days	Cheque	10,858	4.6
5	Supplier/Subcontractor F	A PRC company engaged in manufacturing of eyewear raw materials and products	Parts and accessories, metal, and subcontracting services	5	60 days	Cheque	9,621	4.1
<b>Total</b>							<b>74,319</b>	<b>31.6</b>

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*For the year ended 31 December 2018*

Rank	Supplier/Subcontractor	Principal business activities	Type(s) of products/ services provided to our Group	Approximate years of relationship with our Group as at the Latest Practicable Date	Typical credit term offered by our suppliers/ subcontractors	Payment method	Amount of purchases (HK\$'000)	As a percentage of total purchases (%)
1	Supplier/Subcontractor F	A PRC company engaged in manufacturing of eyewear raw materials and products	Parts and accessories, metal, and subcontracting services	5	60 days	Cheque	15,960	6.3
2	Supplier/Subcontractor C	A PRC company engaged in manufacturing of eyewear raw materials and products	Metal, and subcontracting services	6	60 days	Cheque	12,229	4.9
3	Supplier/Subcontractor A	A PRC company engaged in manufacturing of eyewear raw materials and products	Acetate, and subcontracting services	6	60 days	Cheque	11,787	4.7
4	Supplier/Subcontractor G	A PRC company engaged in manufacturing of eyewear raw materials and products	Acetate, and subcontracting services	3	60 days	Cheque	10,124	4.0
5	Supplier/Subcontractor E	A PRC company engaged in manufacturing of eyewear raw materials and products	Acetate, and subcontracting services	5	60 days	Cheque	10,106	4.0
<b>Total</b>							<b>60,206</b>	<b>23.9</b>

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To the best knowledge and belief of our Directors after making all reasonable enquiries, none of our Directors or any Shareholders, who owns more than 5% of the share capital of our Company immediately following completion of the Share Offer and the Capitalisation Issue, nor any of their respective associates, has any interest in any of the five largest suppliers/subcontractors of our Group for each of the years ended 31 December 2016, 2017 and 2018.

### **Agreements or arrangements with our suppliers and subcontractors**

To minimise our inventory and to cope with the changing demand from our customers, we generally do not enter into long term agreement with our suppliers. Save for the often-used parts where we will place orders from time to time when the inventory runs low, we place purchase orders with our suppliers when we receive purchase orders from our customers. The prices of raw materials used by our Group are largely subject to market demand and supply. A typical purchase order contains the following major terms:

- (i) Order details: the specifications and quantity required, unit price and total purchase amount for raw materials are specified;
- (ii) Payment terms: payment is normally made by bank transfer or cheque with a credit period of 30–90 days; and
- (iii) Delivery details: our Group usually requires our suppliers to deliver the goods, at the suppliers' cost, to our production bases.

During the Track Record Period, we subcontracted all of our electroplating process as we do not have the necessary production facilities to do so. In addition, we from time to time subcontracted the manufacturing of the entire eyewear product or part of the production process (such as brazing) to our subcontractors. In situations where we provide the raw materials, we pay the respective subcontractors a subcontracting fee calculated based on the quantity of the relevant order. Where the raw materials are sourced by the subcontractors, we arrange payment to the subcontractors based on the price of the whole eyewear product manufactured.

We will enter into legally-binding master procurement agreements with certain of our suppliers and subcontractors who generally have sizeable scale of operations with the following typical key terms:

Terms or duration:	The agreements generally have a term of one year and subject to automatic renewal of one year.
Purchase quantity/services provided:	<p>There is no fixed purchase amount and our Group will make purchases to our supplier by way of purchase orders.</p> <p>The subcontractor will perform certain production steps or manufacture the entire eyewear product as stipulated in the purchase order.</p>

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Price:	The supplier and subcontractor will provide quotation specifying the purchase cost for the raw materials and the fees for providing the subcontracting services (as the case maybe).
Delivery:	The supplier shall deliver the raw materials and the subcontractor shall deliver the processed product or entire eyewear product in accordance with our delivery schedules set forth in the purchase order.
Inspection and product returns:	<p>We typically inspect the raw materials for compliance with agreed quality standards when the raw materials arrive at our warehouses. If our quality control personnel identifies any quality issue and the cause of the quality issue is attributable to the supplier, the supplier is responsible for arranging the product returns.</p> <p>We typically inspect the processed eyewear product or the entire eyewear products upon its delivery to us. We also have the right to inspect the production facilities of our subcontractors.</p>
Payment and credit term:	Generally ranging from 30 to 90 days from the invoice date. Payments are normally made by us in RMB or HKD by way of bank transfer or cheque.
Incentive scheme from suppliers:	Certain suppliers offer an incentive scheme to our Group in the form of a rebate in an ascending scale ranging from 0.5% to 6.5% if our Group has made yearly purchases ranging from over HK\$1.0 million to HK\$15.0 million. The rebate would be given either by (i) offsetting from the amount due to our suppliers in the first month of the following year; or (ii) cash.
Termination:	<p>The agreement can be terminated by mutual consent.</p> <p>We can unilaterally terminate the agreement if (i) the supplier and the subcontractor is in breach of the agreement over three times; or (ii) the supplier and the subcontractor is blacklisted by regulatory authorities responsible for quality control.</p>

## TRANSFER PRICING ARRANGEMENT

Our production activities in the Shenzhen Production Base and Jiangxi Production Base are undertaken by Shenzhen Hua Qing and Jiangxi Huaqing in the PRC, respectively, while the sales, marketing and other administrative activities are principally undertaken by Kelfred in Hong Kong. During the Track Record Period, (i) Shenzhen Hua Qing purchased raw materials from Kelfred and other suppliers for manufacturing and the finished products were either sold to Kelfred for on-selling to customers or directly to customers; and (ii) Jiangxi Huaqing purchased raw materials from suppliers for manufacturing and the finished products were sold to Kelfred for on-selling to customers.

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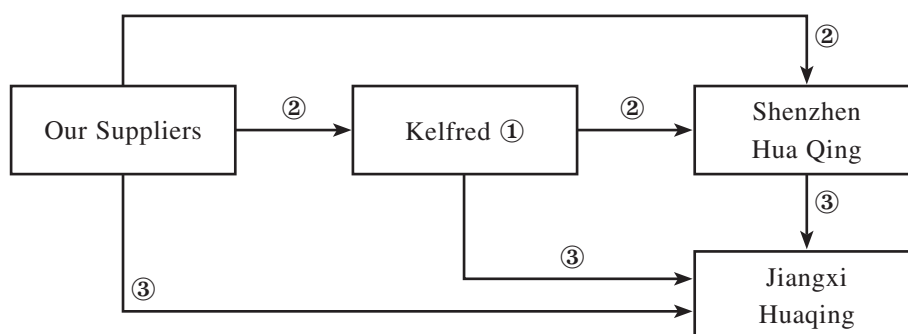
## BUSINESS

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In addition, during the Track Record Period, Shenzhen Hua Qing provided supporting services, including (i) design services and procurement services to Kelfred; and (ii) procurement, logistics, manufacturing process and engineering services to Jiangxi Huaqing, whereas Jiangxi Huaqing provided design and quality control services to Kelfred. Generally, Kelfred is our Group's principal entity dealing with overseas customers and controls the pricing decision of such sales.

The following diagrams set out the logistics flow of raw materials and finished goods among different entities/offices within the Group:

### *Raw materials*



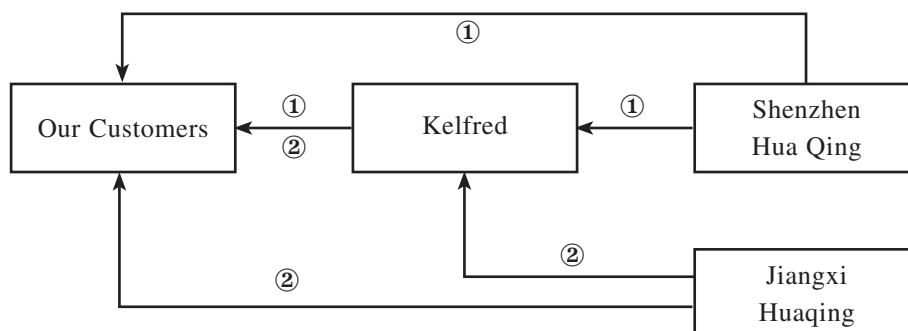
- ① Kelfred's sales and marketing team negotiate the terms of and execute the agreements with our customers, or accepted the purchase orders (including the shipment terms). It is also responsible for issuing sales invoices to our customers. Kelfred would place orders with Shenzhen Hua Qing or Jiangxi Huaqing.
- ② Shenzhen Hua Qing purchased the raw material from either Kelfred (who procured raw materials from our suppliers) or our suppliers for manufacturing. The raw materials are delivered either from (i) our suppliers to Shenzhen, the PRC; or (ii) our suppliers to Hong Kong and subsequently to Shenzhen, the PRC.
- ③ Jiangxi Huaqing mainly purchased raw materials from our suppliers. It also procured a small portion of raw materials from Kelfred and Shenzhen Hua Qing.

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### *Finished goods*



- ① A majority of the finished goods manufactured by Shenzhen Hua Qing were sold to Kelfred, which would then sell to our customers. The remaining finished goods were sold by Shenzhen Hua Qing to our customers. The finished goods manufactured in Shenzhen, the PRC are delivered to our customers via Hong Kong.
- ② A majority of the finished goods manufactured by Jiangxi Huaqing were sold to Kelfred for on-selling to our customers. The remaining finished goods were sold by Jiangxi Huaqing to our customers. The finished goods manufactured in Jiangxi, the PRC are delivered to our customers via Shanghai, the PRC.

### *Provision of services*

Shenzhen Hua Qing also provided (i) research and design services and procurement services to Kelfred; and (ii) procurement, logistics, manufacturing process and manufacturing engineering services to Jiangxi Huaqing.

Jiangxi Huaqing also provided design and quality assurance services to Kelfred.

In an ordinary sales transaction, raw materials are sold from Kelfred to Shenzhen Hua Qing and Jiangxi Huaqing in accordance with the price per import handbook as registered with PRC customs office, and the finished product are sold to Kelfred at an appropriate mark-up based on the estimated total raw material cost (consisting of estimated raw material cost from both Kelfred and third party PRC suppliers) which ensures that Shenzhen Hua Qing and Jiangxi Huaqing will have a reasonable profit margin in correspondence with its matching function and risk.

We have engaged RSM Tax Advisory (Hong Kong) Limited (“**Tax Consultant**”) to review the trading transactions between Kelfred and each of Shenzhen Hua Qing and Jiangxi Huaqing during the Track Record Period (including the functions performed and risks borne by the related parties) and the transfer pricing compliance status of our Group during the Track Record Period, namely (i) the manufacturing and sales of spectacle frames and sunglasses from Shenzhen Hua Qing to Kelfred (“**Transaction A**”); and (ii) the manufacturing and sales of spectacle frames and sunglasses from Jiangxi Huaqing to Kelfred (“**Transaction B**”).

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From transfer pricing perspective, Shenzhen Hua Qing and Jiangxi Huaqing should be considered as limited risk manufacturers and were selected as tested parties and their transfer pricing practice were compared with the benchmarks derived from comparable companies engaged in similar industries under the “Transaction Net Margin Method” (“TNMM”). 3 years’ weighted average Total Cost Plus Mark-Up (“TCPM”) was selected as the profit level indicators (“PLI”) in the benchmark analysis instead of gross profit margin, according to our Tax Consultant.

According to our Tax Consultant, the transfer pricing risk for the related party transactions between Shenzhen Hua Qing and Kelfred (i.e. Transaction A) is low as Shenzhen Hua Qing’s PLIs for the Track Record Period lies within the inter-quartile range of the comparable companies.

For Transaction B, Jiangxi Huaqing’s PLI for the year ended 31 December 2016 and the year ended 31 December 2018 falls within the inter-quartile range of the comparable companies, while its PLIs for the year ended 31 December 2017 fall between the minimum and the lower quartile of the comparable companies, according to our Tax Consultant.

Our Tax Consultant noted that Jiangxi Huaqing (started operation in 2016) incurred heavy start-up costs and inefficiencies during the above period. According to OECD’s draft handbook of Transfer Pricing risk assessment and Base Erosion and Profit Shifting Action Plan 10, associated enterprises, like independent enterprises, can genuine losses, for example, start-up operations losses over a period of a few years due to heavy start-up costs, inefficiencies, etc. As such, it would be justifiable for Jiangxi Huaqing’s negative TCPM during the year ended 31 December 2017. In addition, Jiangxi Huaqing’s TCPM (after the qualitative adjustments to eliminate the above factors) for the year ended 31 December 2017 lies within the inter-quartile range of the comparable companies. Therefore, the transfer pricing risk for the related party transactions between Jiangxi Huaqing and Kelfred during the Track Record Period (including the year ended 31 December 2017) is low.

After reviewing the nature and characteristics of the transaction model between Kelfred and each of Shenzhen Hua Qing and Jiangxi Huaqing, our Tax Consultant concluded that (i) the profit level indicator (i.e. total cost plus mark-up) in the benchmark analysis was reasonable and commensurated with the risks and functions of each of Kelfred, Shenzhen Hua Qing and Jiangxi Huaqing; (ii) Shenzhen Hua Qing, Jiangxi Huaqing and Kelfred are in compliance with the applicable PRC and Hong Kong transfer pricing guidelines and regulations; and (iii) our Group’s transfer pricing was in line with the OECD arm’s length principle and have no material impact on our Group’s cross-border business arrangement, during the Track Record Period.

Our Group consists of (i) Hong Kong-incorporated entities, namely, Kelfred, Central Designs and Optical Farm; and (ii) PRC incorporated entities, namely Shenzhen Hua Qing, Jiangxi Huaqing and Ying Tan. While our subsidiaries incorporated in Hong Kong are subject to a profit tax rate of 16.5% (and with a two-tiered tax rate introduced under the Inland Revenue (Amendment) (No. 7) Bill 2017 applied to Kelfred for its annual reporting periods ending on or after 1 January 2018), our PRC subsidiaries were subject to the statutory enterprise income tax rate of 25% in the PRC. As such, the effective tax rate was approximately 17.3%, 19.6% and 19.1% during the Track Record Period. Our Directors confirm that our Group was not challenged by the relevant tax authority in respect of its transfer pricing arrangement in place prior to the Track Record Period, during the Track Record Period and up to the Latest Practicable Date. We and the Tax Consultant also confirm that our Group’s transfer pricing arrangement has not been challenged by the relevant tax authority during the Track Record Period and up to the Latest Practicable Date.

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According to Article 56 of Implementation Rules of the PRC Tax Administration Law (2016 version), if a taxpayer fails to conduct related party transactions in accordance to the arm's length principle, the PRC tax authorities could make transfer pricing adjustments up to three years prior to the year of the related party transaction under review. Under special cases, the PRC tax authorities could make transfer pricing adjustment up to 10 years prior to the year of the related party transaction under review. The Tax Consultant considers the risk and likelihood that our Group's transfer pricing arrangement in place prior to the Track Record Period being challenged by the relevant tax authorities (i.e. PRC and Hong Kong) is low based on the following observations:

### *From the PRC Perspective*

#### *a. Shenzhen Hua Qing*

Shenzhen Hua Qing was acquired by the Group in April 2013. Prior to the Track Record Period (i.e. for the year ended 31 December 2013 ("FY2013"), for the year ended 31 December 2014, ("FY2014") and for the year ended 31 December 2015 ("FY2015")), Shenzhen Hua Qing only conducted related party transactions with Kelfred.

- (i) Shenzhen Hua Qing's 3 years' weighted average (FY2013, FY2014 and FY2015) PLI (i.e. the TCPM) is 3.37% which lies within the 3 years' weighted average inter-quartile range of the selected comparable companies included in the benchmark analysis;
- (ii) our Group is in compliance with the applicable PRC and Hong Kong transfer pricing guidelines and regulations during the Track Record Period; and
- (iii) the Tax Consultant is not aware of any special issues or indications during the Track Record Period which may trigger the PRC tax authorities to impose transfer pricing adjustments up to 10 years (i.e. prior to Track Record Period).

#### *b. Jiangxi Huaqing and Ying Tan*

Jiangxi Huaqing and Ying Tan are incorporated in the PRC on 31 May 2016 (i.e. during the Track Record Period).

### *From Hong Kong Perspective*

#### *a. Kelfred and Central Designs*

Kelfred was incorporated in Hong Kong on 8 April 1986. Prior to the Track Record Period, Kelfred has conducted trading transactions with the following related parties, namely (i) Shenzhen Hua Qing; and (ii) Central Designs.

- (i) *Related party transactions between Kelfred and Shenzhen Hua Qing prior to the Track Record Period*

Shenzhen Hua Qing was acquired by our Group in April 2013. Since (a) Kelfred is subject to Hong Kong Profits Tax at 16.5%; whilst Shenzhen Hua Qing is subject to PRC Corporate Income Tax at 25%; (b) Kelfred was making profit for FY2013, FY2014 and FY2015 based on the statutory auditor reports; and (c) Shenzhen Hua Qing was making profit for FY2013, FY2014 and FY2015 based on the PRC tax auditor reports, the risk and likelihood that Inland Revenue Department ("IRD") challenges Kelfred's related party transactions with Shenzhen Hua Qing is low.



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(ii) *Related party transactions between Kelfred and Central Designs prior to the Track Record Period*

Central Designs was incorporated in Hong Kong on 3 September 2014. Prior to the Track Record Period, Central Designs only conducted related party transactions with Kelfred.

Since (a) Kelfred and Central Designs are companies incorporated in Hong Kong and subject to Hong Kong Profits Tax at 16.5%; (b) Kelfred was making profit for FY2014 and FY2015 based on the statutory auditor reports; and (c) Central Designs was making profit for period from 3 September 2014 (date of incorporation) to 31 December 2015 based on the statutory auditor report, the risk and likelihood that IRD challenges Kelfred's related party transactions with Central Designs is low.

b. *Optical Farm*

Optical Farm was incorporated in Hong Kong on 10 December 2015. Prior to the Track Record Period, Optical Farm did not conduct any related party transactions.

Furthermore, our Controlling Shareholders have entered into a Deed of Indemnity in favour of our Company (for itself and as trustee for each of its subsidiaries) pursuant to which our Controlling Shareholders have agreed to jointly and severally indemnify and at all times keep each member of our Group fully and effectively indemnified against, inter alia, the amount of any and all taxation which might fall on any of the members of our Group resulting from or by reference to any income, profits, gains, transactions, events, matters or things earned, accrued, received entered into (or deemed to be so earned, accrued, received or entered into) or occurring on or before the date of Listing.

We have adopted the following internal control measures to ensure ongoing compliance with the relevant transfer pricing laws and regulations in Hong Kong and the PRC:

- (i) we have established and implemented internal control policy on tax related matters and would obtain updates on transfer pricing laws and regulations and assessment of related risks on our Group from time to time;
- (ii) our Group's transfer pricing arrangements are determined based on the profit ratio calculated with reference to the benchmarking analysis to ensure compliance with arm's length principle;
- (iii) our Group's financial controller will (a) monitor the amount of related party transactions to determine whether contemporaneous documents are required to be prepared; and (b) review related party transaction reporting forms before submission to PRC tax authorities;
- (iv) related party transaction reporting forms are properly filed with the relevant PRC tax authority and maintained in Shenzhen Hua Qing and Jiangxi Huaqing for inspection; and
- (v) we will engage tax consultant(s) to review whether our Group's transfer pricing arrangements have followed the arm's length principle to ensure compliance if and when necessary.

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### INFORMATION TECHNOLOGY

Our Directors believe that a comprehensive information system is important in improving our efficiency in administering and operating our business. We have in place an ERP system to support various aspects of our business operations, including procurement, production, sales, inventory, and delivery.

Our ERP system provides an integrated platform that (i) provides the specifications and raw materials needed for each of our product; (ii) controls the inventory of raw materials; (iii) gathers information on customer purchases; and (iv) tracks the progress of the manufacturing of our products from production to storage in our warehouse and to its eventual delivery to our customers.

### AWARDS AND ACCREDITATIONS

The table below set out our major awards or certificates obtained by our Group during the Track Record Period up to the Latest Practicable Date:

Year of Grant	Holder	Awards/accreditations	Issuing body	Expiry
2017	Jiangxi Huaqing	GB/T 19001-2016/ISO 9001:2015	China Quality Mark Certification Group	August 2020
2017	Jiangxi Huaqing	GB/T 24001-2016/ISO 14001:2015	China Quality Mark Certification Group	August 2020
2017	Jiangxi Huaqing	GB/T 28001-2011/OHSAS 18001:2007	China Quality Mark Certification Group	August 2020
2017	Kelfred	Frame Innovation Excellence of the year 2017	Specsavers	N/A
2019	Shenzhen Hua Qing	GB/T 19001-2016/ISO 9001:2015	Shanghai Kaicheng Certification Co., Ltd.	March 2022
2019	Shenzhen Hua Qing	GB/T 24001-2016/ISO 14001:2015	Shanghai Kaicheng Certification Co., Ltd.	March 2022
2019	Shenzhen Hua Qing	GB/T 28001-2011/OHSAS 18001:2007	Shenzhen Zhongbiao International Testing and Certification Co., Ltd.	March 2021

### QUALITY CONTROL

Our quality control department is responsible for maintaining and operating our quality control system to ensure our products meet our customers' expectation and international industry standards. Our Group has established a quality management system which is certified to be in compliance with the requirements of ISO 9001:2015. Quality testing is conducted on the raw materials, work in progress and finished products.

#### Quality certifications

Our Group has obtained various international recognised industry standards and quality system certifications. Please refer to the paragraph headed "Awards and Accreditations" in this section for details of the quality certifications obtained by our Group.

### **Quality control of incoming raw materials**

To ensure that the quality of raw materials comply with our specifications and requirements, we inspect and perform incoming quality control tests on the raw materials. Our warehouse personnel checks the specifications, type, quantity and quality of the raw materials on a sampling basis. Sub-standard raw materials will be returned to the suppliers for exchange. In addition, we keep an approved supplier list and we would assess our potential suppliers on their quality of raw materials prior to accepting them as our suppliers.

### **Quality control in the production process and finished products**

Our quality control staff will closely monitor the production of each of our products (including those manufactured/handled by our subcontractors) to ensure strict compliance with our standard operating procedures. They will regularly inspect the quality on the semi-finished products at each stage of the production process on a sampling basis and conduct checking on each finished product to ensure that the product quality adheres to product specifications and requirements provided by our customers. Sub-standard semi-finished products and finished products will be returned to the production department or the subcontractor for repair.

We currently set up one laboratory in each of our Shenzhen Production Base and Jiangxi Production Base to conduct testing on our raw materials, work in progress and finished products as part of our quality control process. As at the Latest Practicable Date, we possess 15 types of machineries to carry out various kinds of tests on our products (including but not limited to resistance to perspiration, dimension discrepancy, frame structure test and salt spray fogging test), with our test reports being accepted by one of our major customers as a qualified third party report.

During the Track Record Period and up to the Latest Practicable Date, our Group did not experience any material complaints or product liability or other legal claims involving problems relating to the quality of the products.

As at the Latest Practicable Date, our quality control department is led by our management and comprises 77 employees who possess a range from two to 20 years' related working experience. We also provide employees with on-going training regarding the level of quality expected.

### **HEALTH AND WORK SAFETY**

We are subject to certain PRC occupational health and safety laws and regulations. See “Regulatory Overview – PRC Laws and Regulations – Laws and regulations on environmental protection” in this prospectus for a summary of the applicable occupational health and safety laws and regulations of the PRC.

We are committed to providing a safe and healthy working environment for our employees and have adopted the following occupational health and safety measures to maintain a safe working environment:

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- our staff handbook contains guidelines for operation and safety control procedures which are distributed to all employees;
- we provide our employees with protective equipment such as gloves, dust masks, and dust proof goggles;
- we conduct inspection and maintenance of our equipment and machineries regularly to identify and eliminate safety hazards;
- we maintain our health and work safety compliance records at our office; and
- we provide trainings to our employees to raise their awareness on occupational safety.

In recognition of our occupational health and safety management system, Jiangxi Huaqing has been certified with OHSAS 18001:2007 in August 2017 which shall be effective for three years from the date of certification. Shenzhen Hua Qing has been certified with OHSAS 18001:2007 in March 2019, which will expire in March 2021.

Our Directors confirm that during the Track Record Period and up to the Latest Practicable Date, there were no material work-related injuries or fatalities at our production facilities, and no prosecution has been made against us by the relevant government authorities in the PRC in respect of the breach of applicable health and safety laws and regulations.

## ENVIRONMENTAL MATTERS

Our Group's operations are subject to certain environmental requirements pursuant to the laws and regulations of the PRC, the details of which are set out in the section headed "Regulatory Overview – PRC Laws and Regulations – Laws and regulations on environmental protection" in this prospectus.

During the Track Record Period and up to the Latest Practicable Date, the major pollutants of our manufacturing processes include waste water, gas emission, dust, noise and solid wastes, which are generated in compliance with all applicable environmental laws, regulations and standards. Our Group recognises the importance of environmental protection and in recognition of our quality environmental management system, Shenzhen Hua Qing was accredited with GB/T24001-2016/ISO14001:2015 certification in March 2019 and Jiangxi Huaqing was accredited with GB/T24001-2016/ISO14001:2015 certification in August 2017, respectively. During the Track Record Period, the aggregate cost of compliance with applicable environmental laws and regulations in the PRC were approximately HK\$0.1 million, HK\$0.1 million and HK\$0.6 million, respectively.

We are committed to minimising any negative impact on the environment which may be resulted from the production process and we have adopted various measures to achieve this objective in our daily operation, including:

- encouraging the reduction in waste water, gas emission, dust, noise and solid wastes during the production process;

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- recycling plastic scrap in our production process;
- engaging qualified third parties to dispose solid wastes; and
- providing training to our employees to ensure that they work in an environmentally friendly and responsible manner.

As advised by the PRC legal advisers, save as disclosed in the paragraph “Legal and Regulatory Compliance” in this section below, we had no material non-compliance or violation on any relevant laws and regulations of the PRC on environmental protection during the Track Record Period and up to the Latest Practicable Date, and has not been subject to any material claims, legal proceedings, penalties or disciplinary actions for the breach of any environmental laws or regulations of the PRC.

### INSURANCE

Our insurance coverage includes general insurance for our Group’s fixed assets (e.g.: production plants and machinery), inventory and trade debtors. For the years ended 31 December 2016, 2017 and 2018, our Group incurred insurance expenses of approximately HK\$1.2 million, HK\$1.2 million and HK\$1.2 million, respectively. Our Directors are of the view that our insurance coverage is in line with the general coverage in the industry and is adequate for our operations. As at the Latest Practicable Date, we had not made nor been the subject of any material insurance claims. However, our business operations are susceptible to potential losses caused by a wide range of business disruptions and we may not be fully indemnified for our losses under our current insurance coverage. Please refer to the section headed “Risk Factors – Risks Relating to our Business – Our insurance coverage may not be sufficient to cover all losses or potential claims from our customers which would affect our business, financial condition and results of operations” in this prospectus for more details.

### MARKET AND COMPETITION

According to the Frost & Sullivan Report, the retail sales of eyewear products in Europe is expected to grow from USD24.3 billion in 2019 to USD28.6 billion in 2023 at a CAGR of 4.2%, while the PRC and Hong Kong was the largest and the third largest exporter of spectacle frames in 2018, respectively. Further, the spectacle frame manufacturing market in the PRC is highly fragmented with over 6,000 manufacturers in the PRC according to the Frost & Sullivan Report.

Our Group was the fifth largest spectacle frame manufacturer and exporter in Hong Kong with an estimated market share of approximately 3.3% in 2018 according to the Frost & Sullivan Report. There are various entry barriers for new market players to establish business presence in the manufacturing and export of spectacle frames industry in Hong Kong. According to the Frost & Sullivan Report, these include established relationship with stakeholders, and industry knowledge on quality and safety standards. Please refer to the section headed “Industry Overview” in this prospectus for further information on the competitive landscape of the eyewear manufacturing and export industry in Hong Kong.

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### PROPERTY INTERESTS

As at the Latest Practicable Date, our Group owned one parcel of land with a site area of approximately 20,000 sq. m. in Glasses Industrial Park, Yujiang District, Yingtan, Jiangxi Province, the PRC\* (中國江西省鷹潭余江（國際）眼鏡工業園). Our Group used the parcel of land as our factory, staff dormitory and office. The land use right of this parcel of land has been granted and will expire on 6 June 2054, and the permitted use of the land was industrial, dormitory and residential. The parcel of land has four buildings with an aggregate gross floor area of approximately 18,874 sq. m., of which approximately 11,438 sq. m. have been utilised as our Group's manufacturing facility. As at the Latest Practicable Date, we had obtained all the relevant property ownership certificates as required under PRC laws and regulations.

The table below lists out the address and function of our leased properties in the PRC and Hong Kong as at the Latest Practicable Date:

Address	Gross floor area	Monthly rental	Function	Leased period
10 Shijia Road, Biling Community, Pingshan District, Shenzhen, China* (中國深圳坪山區碧嶺社區石夾路10號) (“ <b>Property A</b> ”)	8,500 sq. m.	RMB110,000	Factory and staff dormitory	1 March 2018 to 28 February 2023
8 Shijia Road, Biling Community, Pingshan District, Shenzhen, China* (中國深圳坪山區碧嶺社區石夾路8號) (“ <b>Property B</b> ”)	1,300 sq. m.	RMB16,900	Factory	1 January 2018 to 31 December 2022
18 Shijia Road, Biling Community, Pingshan District, Shenzhen, China* (中國深圳坪山區碧嶺社區石夾路18號)	1,049 sq. m.	RMB 12,000	Staff dormitory	30 September 2018 to 30 September 2019 <sup>(Note 1)</sup>
Room 1606, 16/F, Block B, New Trade Plaza, 6 On Ping Street, Shek Mun, Shatin, New Territories, Hong Kong (“ <b>Shatin Property</b> ”)	2,300 sq. ft.	HK\$35,000	Office and warehouse	1 July 2017 to 30 June 2019 <sup>(Note 2)</sup>

Notes:

- We expect to enter into a tenancy agreement in or around July 2019 for the renewal of the lease for a term of one year.
- On 20 June 2019, the tenancy agreement of the Shatin Property has been renewed for a term of two years commencing from 1 July 2019 at a monthly rental of HK\$38,600.

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As at the Latest Practicable Date, the respective lessors of Property A and Property B cannot provide the effective certificate of title to part of the lease and the lease, respectively. Please refer to “Risk Factors – Risks Relating to our Business – We are exposed to the risk of relocation of one of our PRC production bases” in this prospectus for further details.

Save for the Shatin Property which was leased from Ms. Lee, the spouse of Mr. Joe Kwok, all properties are leased from Independent Third Parties. For further details relating to the leasing of the Shatin Property, please refer to the section headed “Continuing Connected Transactions” in this prospectus. Our Directors do not foresee any major difficulties or impediments in renewing the relevant leases upon their expiration.

### INTELLECTUAL PROPERTIES

As at the Latest Practicable Date, our Group (i) had registered two trademarks in Hong Kong, one trademark in the PRC and one trademark in Italy; (ii) had registered 20 patents in the PRC; and (iii) had obtained 12 copyrights in the PRC which are material to our business operations.

Further details of our intellectual property portfolio are provided in the section headed “Statutory and General Information – C. Intellectual Property Rights of our Group” in Appendix V to this prospectus.

As at the Latest Practicable Date, we were not involved in material legal proceeding, claims, disputes, arbitration or administrative proceedings pending or threatening against any member of our Group or any of our Directors with regard to any intellectual property claim against our Group.

### LICENCES, PERMITS AND REGISTRATION

The table below sets out the details of our major licences, certificates and registrations as at the Latest Practicable Date:

<b>Licence, certificate or registration</b>	<b>Issuing body</b>	<b>Issue date</b>	<b>Date of expiry</b>
National Industrial Products Manufacturing Licence (全國工業產品生產許可証)	General Administration of Quality Supervision, Inspection and Quarantine of the People’s Republic of China	September 2015	September 2020
Pollutants Emission Permit (排放污染物許可証)	Yujiang District Environmental Production Bureau (余江縣環境保護局)	January 2017	January 2020

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Our Directors confirm that our Group had obtained all necessary licences and permits for our business operations in Hong Kong and PRC in compliance with relevant laws and regulations as at the Latest Practicable Date. Our Directors confirm that our Group did not experience any material difficulties in obtaining and/or renewing such licences and permits. Furthermore, our Directors are not aware of any circumstances that would significantly hinder or delay the renewal of such licences and permits upon their expiration. Therefore, our Directors do not foresee any major difficulties in compliance with such registration that would cause material impacts on our Group's operations and business.

### RESEARCH AND DEVELOPMENT

During the Track Record Period and up to the Latest Practicable Date, we did not engage in any research and development activities, and our Directors had no plans to engage in any research and development activities in the foreseeable future.

### EMPLOYEES

As at 31 December 2016, 31 December 2017, 31 December 2018 and as at the Latest Practicable Date, our Group had a total of 832, 892, 1,022 and 1,068 full-time employees, respectively, out of which 822, 882, 1,009 and 1,055 are in the PRC. The table below sets out a breakdown of our full-time employees by functions as at the Latest Practicable Date:

Function	Number of employees		Total
	PRC	Hong Kong	
Management	1	5	6
Administration, finance, accounting and information technology	62	4	66
Sales and marketing	43	1	44
Procurement	14	–	14
Manufacturing	728	–	728
Production coordination	48	2	50
Product design and development	82	1	83
Quality Control	77	–	77
<b>Total</b>	<b>1,055</b>	<b>13</b>	<b>1,068</b>

We generally recruit our employees from the open market by placing recruitment advertisements and posting job listings on newspapers and on websites. Our Group values human resources and assesses the available human resources on a continuous basis and will determine whether additional personnel are required to cope with the business development of our Group.



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The remuneration payable to our employees includes basic salaries, allowances and discretionary bonuses. The ability to recruit and retain experienced and skilled labour is crucial to our business development and growth. The basic salaries of our employees are generally determined by the employee's rank, position, qualification, experience and performance. The discretionary bonuses are paid on an annual basis, depending on the duration of services and performance of the individual staff and the profit of our Group in the preceding financial year. In order to attract and retain our employees, we assess the remuneration package offered to our employees on an annual basis to determine whether any adjustment to the basic salaries and bonus should be made. For the years ended 31 December 2016, 2017 and 2018, our employee benefits excluding directors' emolument were approximately HK\$54.9 million, HK\$72.9 million and HK\$92.1 million, respectively.

We provide training to enhance our employees' skills, knowledge and capability. All our new recruits will be provided with an induction program to familiarise with our Group, followed by on-the-job training based on departmental needs and our development strategies. Both in-house and external training are conducted to give our employees understanding regarding basic eyewear products manufacturing information, our standard operating procedures, regulations and other relevant topics.

During the Track Record Period, our Group had not experienced any significant difficulties in recruiting employees, and had not experienced any significant staff or labour disputes. Our Directors confirm that our Group's relationship with our employees is satisfactory in general. Our Directors consider that the management policies, working environment, career prospects and benefits extended to our employees have contributed to building a good employee relations and employee retention. During the Track Record Period and up to the Latest Practicable Date, our Group have one labour union established by our employees in the Shenzhen Production Base.

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### LEGAL AND REGULATORY COMPLIANCE

Save as disclosed below, our Directors confirm that we complied with all applicable laws and regulations in all material respects in Hong Kong and the PRC during the Track Record Period and up to the Latest Practicable Date:

No.	Non-compliance incidents	Reasons for the non-compliance	Rectification actions (if any) taken and current status	Possible legal consequences and maximum liabilities	Enhanced Internal control measures adopted by our Group to prevent recurrence of the non-compliance
1.	Jiangxi Huaqing and Ying Tan failed to register the housing provident fund with the relevant administrative centre of housing provident funds in accordance with Administrative Regulations on Housing Provident Funds (住房公積金管理條例).	The non-compliance incidents were due to (i) unintentional and inadvertent oversight of our human resources department's manager (the "HR Manager") who is unfamiliar with the relevant laws and regulations; (ii) the absence of timely professional legal advice; and (iii) the reluctance of certain employees to contribute social insurance and housing provident fund contributions due to personal reasons or the fact that their places of origin were outside the provinces or cities where we operate our business and they had no plan to continue to stay in these provinces or cities after retirement.	Both Jiangxi Huaqing and Ying Tan have already registered the housing provident fund with the relevant administrative centre of housing provident funds in accordance with the relevant PRC laws and regulations since January 2018.	As advised by our PRC Legal Advisers, Jiangxi Huaqing and Ying Tan may be ordered to register the housing provident fund with the relevant administrative center of housing provident funds within the prescribed time period. If Jiangxi Huaqing and Ying Tan fail to do so, a fine which ranges from RMB10,000 to not more than RMB50,000 may be imposed.	We have appointed Ms. Tsang Wing Kiu, our chief financial controller and company secretary, to monitor the compliance by our Group in relation to the social insurance and housing provident fund contributions.
	Shenzhen Hua Qing, Jiangxi Huaqing and Ying Tan failed to (i) pay the social insurance and housing provident fund contributions; or (ii) pay sufficient social insurance and housing provident fund contributions for their respective employees in accordance with PRC Social Insurance Law (中華人民共和國社會保險法), the Administrative Regulations on Housing Provident Funds (住房公積金管理條例) and other relevant regulations.		Since November 2017, January 2018 and July 2018, Shenzhen Hua Qing, Ying Tan and Jiangxi Huaqing have made full social insurance and housing provident fund contributions in accordance with the relevant PRC laws and regulations respectively.	Since Jiangxi Huaqing and Ying Tan have taken initiative to register the housing provident fund with the administrative centre of housing provident funds, our PRC Legal Advisers opine that the likelihood that Jiangxi Huaqing and Ying Tan will be penalised by the relevant housing provident funds authority in relation to the failure of registration of housing provident fund is remote.	We have also adopted the following measures to prevent recurrence of such non-compliance incidents:
					(i) adopting internal policies (such as "human resources policies and procedures" and "policy manual – corporate governance policy") to ensure compliance with all regulatory requirements in the PRC, including the procedures to require the HR Manager to review the number of employees before making social insurance and housing provident fund contributions;

No.	Non-compliance incidents	Reasons for the non-compliance	Rectification actions (if any) taken and current status	Possible legal consequences and maximum liabilities	Enhanced Internal control measures adopted by our Group to prevent recurrence of the non-compliance
	For the three years ended 31 December 2018, the aggregate amount of unpaid social insurance and housing provident fund contributions was approximately HK\$6.58 million, HK\$5.28 million and HK\$0.14 million respectively.		As at the Latest Practicable Date, we had not been ordered by any government authorities to make social insurance and housing provident fund contributions previously unpaid or to pay any fines or penalties, nor are we aware of any employee complaints or demands for payment for previously unpaid social insurance and housing provident fund contributions.	As advised by our PRC Legal Advisers, the social insurance authority is entitled to order Shenzhen Hua Qing, Jiangxi Huaqing and Ying Tan to make all outstanding social insurance contributions with a stipulated time period and impose a late payment fee at the rate of 0.05% per day from the due date. If Shenzhen Hua Qing, Jiangxi Huaqing and Ying Tan fail to do that, a fine in the amount of one to three times of the total of the outstanding social insurance contributions and the said overdue penalty may be imposed.	<p>(ii) conducting internal check by internal audit department and internal control review consultant from time to time to ensure that we have paid sufficient social insurance and housing provident fund contributions in accordance with the relevant PRC laws and regulations; and</p> <p>(iii) seeking advice from external legal advisers on the latest requirements of applicable laws and regulations of the PRC from time to time.</p>

**Enhanced Internal control measures adopted by our Group to prevent recurrence of the non-compliance**

No.	Non-compliance incidents	Reasons for the non-compliance	Rectification actions (if any) taken and current status	Possible legal consequences and maximum liabilities	
				<p>Further, as advised by our PRC Legal Advisers, the competent authorities have the power to order Shenzhen Hua Qing, Jiangxi Huaqing and Ying Tan to make housing provident fund contributions within a prescribed time limit and if Shenzhen Hua Qing, Jiangxi Huaqing and Ying Tan fail to act accordingly, an application of compulsory enforcement can be made to the People's Court of the PRC.</p>	

No.	Non-compliance incidents	Reasons for the non-compliance	Rectification actions (if any) taken and current status	Possible legal consequences and maximum liabilities	Enhanced Internal control measures adopted by our Group to prevent recurrence of the non-compliance
				<p>In view of the facts that (i) we have fully paid social insurance and housing provident fund contributions in accordance with the relevant PRC laws and regulations; (ii) we have obtained compliance confirmation letters in relation to the social insurance and housing provident fund contributions from the relevant competent authorities; (iii) no objection or complaint has ever been raised by our employees; and (iv) we had never been subject to any penalty or punishment imposed by the relevant competent authorities, our PRC Legal Advisers opine that the likelihood that we will be penalised or will be required by the relevant competent authorities to pay the unpaid social insurance and housing provident fund contributions is remote.</p>	

No.	Non-compliance incidents	Reasons for the non-compliance	Rectification actions (if any) taken and current status	Possible legal consequences and maximum liabilities	Enhanced Internal control measures adopted by our Group to prevent recurrence of the non-compliance
2.	Jiangxi Huaqing failed to apply for the environmental protection completion inspection before commencement of production in accordance with Regulations on the Administration of Construction Project Environmental Protection (建設項目環境保護管理條例).	The non-compliance was unintentional and due to the inadvertent oversight of our relevant staff and the unfamiliarity with the relevant regulatory requirements and the absence of timely professional legal advice.	Jiangxi Huaqing has already passed the environmental protection completion inspection in January 2017.	As advised by our PRC Legal Advisers, Jiangxi Huaqing may be ordered to apply for environmental protection completion inspection upon completion within a prescribed time limit. If Jiangxi Huaqing fails to act accordingly, an order of cessation of production may be made and a fine of not more than RMB100,000 may be imposed.	We have appointed Mr. Ken Kwok, our executive Director and chief executive officer, to monitor the compliance by our Group in this aspect.  We will also seek advice from external legal advisers on the latest requirements of applicable laws and regulations of the PRC from time to time.

No.	Non-compliance incidents	Reasons for the non-compliance	Rectification actions (if any) taken and current status	Possible legal consequences and maximum liabilities	Enhanced Internal control measures adopted by our Group to prevent recurrence of the non-compliance
				<p>Our PRC Legal Advisers have conducted an interview with the Environmental Protection Bureau of Yuijiang District* (余江縣環境保護局), which confirmed that since Jiangxi Huaqing (i) has already passed the environmental protection completion inspection; (ii) has completed the construction of the environmental prevention measures before the relevant production and such measures were put into use at the same time of the relevant production; and (iii) no environmental pollution was caused during the production, Jiangxi Huaqing would not be penalised for failure to apply for and pass the environmental protection completion inspection before commencement of production. Hence, our PRC Legal Advisers opine that the likelihood of Jiangxi Huaqing being penalised due to such non-compliance incident is remote.</p>	

Based on the facts that (i) our Controlling Shareholders has undertaken to indemnify our Group when we are ordered by the relevant competent authorities to make retroactive contributions to the social insurance fund and/or housing provident fund or being penalised or punished due to such non-compliance incidents; and (ii) the likelihood of our Group being fined, penalised, punished or prosecuted in respect of the above non-compliance incidents is remote based on the opinion from our PRC Legal Advisers, our Directors consider that no provision in relation to the above non-compliance incidents is required to be made in the financial information of our Group for the Track Record Period.



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Our Directors are of the view that after considering (i) the nature of the above non-compliance incidents; (ii) the remedial actions taken by our Group; (iii) the insignificant amount of the maximum aggregate penalties that may be imposed on us; (iv) the results of internal control review conducted by our independent internal control review consultant; and (v) the business nature and operation scale of our Group:

- (1) the above non-compliance incidents did not and will not have any material adverse effect on our business, results of operation and financial position;
- (2) our internal controls currently in place to prevent recurrence of similar non-compliance incidents are adequate and effective; and
- (3) our Directors are suitable to act as directors of our Company under Rules 3.08 and 3.09 of the Listing Rules and we and our business are both suitable for Listing under Rule 8.04 as the non-compliance incidents:
  - (a) do not involve any element of dishonesty on the part of our Directors;
  - (b) do not involve deliberate intent on the part of our Directors or our Company not to comply with the relevant laws and regulations; and
  - (c) neither cast doubt on the integrity or competence of our Directors nor affect their suitability to act as our directors under Rules 3.08 and 3.09 of the Listing Rules.

The Sponsor concurred with the Directors' view that the non-compliance incidents do not have any material impact on our Directors' suitability to act as directors under Rules 3.08 and 3.09 of the Listing Rules and our suitability for listing under Rule 8.04 of the Listing Rules having considered the implementation of the enhanced internal control policies and measures/remedial actions, the business nature and operation scale of our Group, and our Group's internal control system is sufficient and effective for its operation.

## LITIGATION AND POTENTIAL CLAIMS

As at the Latest Practicable Date, we were not aware of any material legal proceedings, claims, disputes, arbitration or administrative proceedings pending or threatening against any member of our Group or any of our Directors that could have a material adverse impact on our financial condition or operating results.

### **INTERNAL CONTROL AND RISK MANAGEMENT MEASURES**

Our Directors are responsible for formulating and overseeing the implementation of our internal control measures and the effectiveness of our risk management system.

To manage our external and internal risks and to ensure the smooth operations of our business, we have engaged the Internal Control Consultant to assist our Group to review and provide recommendations on improving our internal control system. The Internal Control Consultant has reviewed and provided recommendations on our internal control system, including (i) establishing procedures to ensure that Shenzhen Hua Qing and Jiangxi Huaqing make housing provident funds contributions for our employees; and (ii) establishing procedures to ensure that Shenzhen Hua Qing and Jiangxi Huaqing make individual income tax contributions for our employees, in accordance with the relevant PRC laws and regulations.

The Internal Control Consultant conducted a follow up review in July 2018 based on the recommendations, and concluded that all remedial measures have been implemented. In particular, we have adopted a series of internal control policies, procedures and programs designated to achieve effective and efficient operations, reliable financial reporting and compliance with applicable laws and regulations.

The following set out the key risk management and control procedures for our business:

#### **Operational risk management**

Our executive Directors are responsible for assessing the operational risks of our business and implementing our risk management policies and procedures. With our commitment to quality control, we have implemented internal quality control policy and procedures taking reference from ISO 9001 standards. In order to ensure strict compliance of our operations with the standards, we conduct our own reviews to monitor the effectiveness of such control procedures.

#### **Risk control**

There were certain risks that require management's attention, including insufficient written records of approval processes, failure to detect unethical behaviours, absence of dual control in financial system. In order to control such risks, our Group has endorsed staff handbook, internal control and compliance manual which require all Directors and employees of our Group to observe. We have also established a risk management committee on 22 June 2019 in order to enhance our Group's risk management ability and improve our corporate governance. For details of the risk management committee, please refer to the paragraph headed "Directors, Senior Management and Employees – Board Committees – Risk management committee" in this prospectus.

#### **Regulatory risk management**

Upon Listing, our Group may be exposed to the risks of non-compliance with the Listing Rules. We have engaged Cinda International as our compliance adviser. Our Group will also consider to retain a Hong Kong legal adviser to advise us on compliance matters in relation to applicable Hong Kong laws and regulations if necessary.

### **Investment management policy**

Our Directors are responsible for managing and overseeing our investment activities. During the Track Record Period, our Directors assessed our foreign exchange risk on a regular basis, taking into account factors such as (i) the prevailing foreign exchange market condition and trends; (ii) the need for currency conversion of our daily operation (including foreign currency receipts, settlement of accounts payables and procurement of property, plant and equipment in foreign currency); and (iii) the recommendations from financial institutions.

We have established an investment management policy to ensure proper monitoring of our future investments (the “**Investment Management Policy**”). Under such policy, feasibility study has to be conducted on all potential investments, and a detailed proposal of the potential investments (including expected return, the cost-benefit analysis, impact on the operations of our Group, key performance indicators and risks) shall be submitted to management for approval. Please refer to the section headed “Financial Information – Derivative financial instruments” in this prospectus for our investment activities. After the expiry of the two foreign exchange forward contracts in October 2016 and up to the Latest Practicable Date, we have not entered into any new structured foreign currency contracts.

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## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

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### DIRECTORS

The following table sets forth certain information regarding our Directors:

Name	Age	Present position(s) in our Company	Date of appointment as Director	Date of joining our Group	Brief description of roles and responsibilities	Relationship among Directors
Executive Directors						
Mr. Joe Kwok (郭君暉)	46	Executive Director and Chairman of our Board	20 April 2018	1 April 1998	Responsible for formulating overall business development strategies, overall management and administration and making major business decisions of our Group	Son of Mr. Kwok and Mrs. Kwok and brother of Mr. Ken Kwok
Mr. Ken Kwok (郭君宇)	41	Executive Director and chief executive officer	20 April 2018	1 December 1999	Responsible for making major operation decisions for our Group and supervising business administration of our Group	Son of Mr. Kwok and Mrs. Kwok and brother of Mr. Joe Kwok
Non-executive Directors						
Mr. Kwok (郭茂群)	75	Non-executive Director	21 May 2018	18 April 1986	Participating in formulating the corporate and business strategies of our Group	Father of Mr. Joe Kwok and Mr. Ken Kwok and spouse of Mrs. Kwok
Mrs. Kwok (陳燕華)	68	Non-executive Director	24 July 2018	21 August 1987	Participating in formulating the corporate and business strategies of our Group	Mother of Mr. Joe Kwok and Mr. Ken Kwok and spouse of Mr. Kwok
Independent Non-executive Directors						
Mr. Chan Hon Wah (陳漢華)	68	Independent non-executive Director	22 June 2019	22 June 2019	Providing independent advice to our Board	Not applicable
Mr. Chu Kin Ming (朱健明)	38	Independent non-executive Director	22 June 2019	22 June 2019	Providing independent advice to our Board	Not applicable
Mr. Lee Wai Ming (李偉明)	51	Independent non-executive Director	22 June 2019	22 June 2019	Providing independent advice to our Board	Not applicable

Our Board currently consists of seven Directors, comprising two executive Directors, two non-executive Directors and three independent non-executive Directors.

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## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

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### Executive Directors

**Mr. Joe Kwok** (郭君暉), aged 46, is an executive Director and the Chairman of our Board. Mr. Joe Kwok joined our Group in April 1998 and has over 20 years of experience in trading, manufacturing and design of eyewear products. He is primarily responsible for formulating overall business development strategies, overall management and administration and making major business decisions of our Group.

Mr. Joe Kwok obtained his Bachelor's degree in Business (Accounting) from Monash University in August 1995. Prior to joining our Group, Mr. Joe Kwok worked as an audit trainee in K. L. Wong & Co., which was an accounting firm, from June 1995 to June 1996 and was employed by Manulife (International) Limited from March 1996 to December 1997 as an agent and his last position was unit manager. Mr. Joe Kwok was a director of LVJ Studio Eyewear Limited ("**LVJ Studio**"), which was principally engaged in trading of eyewear products, for the period from 11 March 2013 to 15 March 2017. To the best knowledge of Mr. Joe Kwok, LVJ Studio was dissolved by deregistration on 17 May 2019 in accordance with section 751 of the Companies Ordinance. For details of LVJ Studio, please refer to the paragraph headed "Relationship with our Controlling Shareholders – Delineation of business of our Group and the business of our Controlling Shareholders" in this prospectus. Mr. Joe Kwok has been holding the following positions under our Group, namely, (i) the director of Kelfred since May 2000; (ii) the director of Central Designs since September 2014; (iii) the director of Optical Farm since December 2015; (iv) the supervisor of Shenzhen Hua Qing since July 2018; (v) the supervisor of Jiangxi Huaqing since May 2016; and (vi) the supervisor of Ying Tan since May 2016.

Mr. Joe Kwok was a director of the following limited liability companies incorporated in Hong Kong prior to their respective dissolution by deregistration with details as follows:

<b>Name of Company</b>	<b>Nature of business immediately prior to dissolution</b>	<b>Date of dissolution</b>
A-Look Limited	Retail sale of eyewear products	25 March 2011 ( <i>Note</i> )
A-Look Plus Limited	Retail sale of eyewear products	6 May 2016 ( <i>Note</i> )
Human Design (HK) Limited	Dormant	26 August 2016 ( <i>Note</i> )

*Note:* As confirmed by Mr. Joe Kwok, A-Look Limited, A-Look Plus Limited and Human Design (HK) Limited were deregistered voluntarily as he would like to devote more time to our Group's business.

Mr. Joe Kwok confirmed that the above companies were solvent immediately prior to their respective dissolution and that there was no wrongful act on his part leading to the dissolution of the above companies by deregistration and he is not aware of any actual or potential claim that has been or will be made against him as a result of the dissolution of the above companies.

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## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

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**Mr. Ken Kwok (郭君宇)**, aged 41, is an executive director and the chief executive officer of our Company. Mr. Ken Kwok joined our Group in December 1999 and has over 18 years of experience in trading, manufacturing and design of eyewear products. He is primarily responsible for making major operation decisions for our Group and supervising business administration of our Group.

Mr. Ken Kwok completed his secondary education in Hong Kong in July 1995. Mr. Ken Kwok has been holding the following positions under our Group, namely, (i) the director of Kelfred since April 2006; (ii) the director of Optical Farm since December 2015; (iii) the legal representative and director of Shenzhen Hua Qing since July 2018; (iv) the legal representative and director of Jiangxi Huaqing since May 2016; and (v) the legal representative and director of Ying Tan since May 2016.

Mr. Ken Kwok was a director of the following limited liability companies incorporated in Hong Kong prior to their respective dissolution by deregistration with details as follows:

<b>Name of Company</b>	<b>Nature of business immediately prior to dissolution</b>	<b>Date of dissolution</b>
A-Look Limited	Retail sale of eyewear products	25 March 2011 ( <i>Note</i> )
A-Look Plus Limited	Retail sale of eyewear products	6 May 2016 ( <i>Note</i> )

*Note:* As confirmed by Mr. Ken Kwok, A-Look Limited and A-Look Plus Limited were deregistered voluntarily as he would like to devote more time to our Group's business.

Mr. Ken Kwok confirmed that the above companies were solvent immediately prior to their respective dissolution and that there was no wrongful act on his part leading to the dissolution of the above companies by deregistration and he is not aware of any actual or potential claim that has been or will be made against him as a result of the dissolution of the above companies.

**Mr. Kwok (郭茂群)**, aged 75, is a non-executive Director of our Company. Mr. Kwok co-founded our Group with an Independent Third Party in April 1986. He has over 32 years of experience in trading, manufacturing and design of eye wear products and is currently the honorary chairman of Jiangxi Yingtian Optical Industry Association\* (江西鷹潭眼鏡行業協會) and a committee member of the First Chinese People's Political Consultative Conference of Yujiang District, Yingtian (政協鷹潭市余江區第一屆委員會會員). He is primarily responsible for participating in formulating the corporate and business strategies of our Group.

Mr. Kwok completed his secondary education in the PRC in June 1962. Mr. Kwok has been the director of Kelfred since April 1986 and acted as a supervisor of Shenzhen Hua Qing for the period from April 2013 to July 2018.

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## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

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Mr. Kwok was a director of the following two companies incorporated in Hong Kong prior to their respective dissolution by striking-off or deregistration with details as follows:

Name of company	Nature of business immediately prior to dissolution	Date of dissolution
Solar Limited	Property holding ( <i>Note 1</i> )	10 January 2003 ( <i>Note 2</i> )
Sungo International Limited	Property holding ( <i>Note 3</i> )	15 February 2018 ( <i>Note 4</i> )

*Notes:*

- (1) The property was sold to an Independent Third Party in 1997. Since then, the board of directors left Solar Limited dormant till 2003 where Solar Limited was struck off by the Companies Registry in Hong Kong.
- (2) Solar Limited was struck off under section 291 of the Predecessor Companies Ordinance. Under section 291 of the Predecessor Companies Ordinance, the Registrar of Companies can strike off a company when it has reasonable cause to believe that it is not carrying on business or in operation in Hong Kong.
- (3) The property and the car park were sold to Independent Third Parties in November 2009 and December 2009 respectively. Since then, the board of directors left Sungo International Limited dormant.
- (4) As confirmed by Mr. Kwok, Sungo International Limited was deregistered voluntarily as the company has been dormant since December 2009.

Mr. Kwok confirmed that the above companies were solvent immediately prior to their respective dissolution and that there was no wrongful act on his part leading to the above dissolution and he is not aware of any actual or potential claim which has been or will be made against him as a result of the dissolution of the above companies.

As at the Latest Practicable Date, Mr. Kwok was a vice chairman of Shenzhen Ruifa Electronic Technology Company Limited\* (深圳瑞發新技術有限公司) (“**Shenzhen Ruifa**”) and a director and legal representative of Shanghai Pu Fa Optical Company Limited\* (上海浦發眼鏡有限公司) (“**Shanghai Pu Fa**”). The business licence of each of Shenzhen Ruifa and Shanghai Pu Fa was revoked by the State Administration for Industry and Commerce on 5 November 1998 and 15 November 1998 respectively due to the failure of the then designated staff of those companies to go through the formality of the annual inspection within the prescribed time period. As confirmed by Mr. Kwok, Shenzhen Ruifa had been dormant and had not commenced any operation since its incorporation whereas Shanghai Pu Fa was principally engaged in retail sale of eyewear products from its incorporation date to 1995 and had then ceased operation and become dormant. As at the Latest Practicable Date, Shenzhen Ruifa and Shanghai Pu Fa have applied for dissolution by way of deregistration. Mr. Kwok confirmed that Shenzhen Ruifa and Shanghai Pu Fa were solvent immediately prior to their respective application for dissolution and that there was no wrongful act on his part leading to the respective application for dissolution and he is not aware of any actual or potential claim which has been or will be made against him as a result of such applications. As advised by our PRC Legal Advisers, Mr. Kwok did not act as a director of any company in the PRC as at the Latest Practicable Date and the revocation of business licences of the two companies would not render Mr. Kwok unsuitable to act as a director of any company in the PRC.

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## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

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Mr. Kwok was convicted of one charge of riot, which is an offence under section 19 of the Public Order Ordinance (Chapter 245 of the Laws of Hong Kong) back in 1967 and was sentenced to 15 months of imprisonment. As advised by our Legal Counsel, the offence which Mr. Kwok was convicted of did not involve any fraudulent acts, corruption or market misconduct. Further, given the nature of riot and as confirmed by Mr. Kwok, the offence was not committed when Mr. Kwok was performing his duties as a director. As such, our Legal Counsel considers having no reason to believe that the said conviction would affect Mr. Kwok's competence to perform his duties as a director as set out in Rules 3.08 and 3.09 of the Listing Rules, which requires that directors of a listed company should both collectively and individually fulfil fiduciary duties and duties of skill, care and diligence to a standard at least commensurate with the standard established by Hong Kong law, let alone in any way affect the present or future operation or management of our Group.

In any event, the riot event in 1967 was a standalone incident. Mr. Kwok committed the offence more than 50 years ago when he was at the age of 23 and he is now 75 years old. As confirmed by Mr. Kwok, he was influenced by the propaganda at that time. As advised by our legal Counsel, save and except this offence, Mr. Kwok has an otherwise unblemished clear record and it is unlikely that Mr. Kwok will reoffend. Thus, our Legal Counsel is of the view that there appears no evidence to justify that the conviction of a riot offence by Mr. Kwok over 50 years ago would give rise to any concern on his integrity or render him unsuitable to act as our non-executive Director under Rules 3.08 and 3.09 the Listing Rules at present.

**Mrs. Kwok (陳燕華)**, aged 68, is a non-executive Director of our Company. She has over 30 years of experience in trading, manufacturing and design of eye wear products. She is primarily responsible for participating in formulating the corporate and business strategies of our Group.

Mrs. Kwok completed her secondary education in Hong Kong in July 1967. She has been acting as a director of Kelfred since August 1987 and acted as the director and legal representative of Shenzhen Hua Qing for the period from April 2013 to July 2018.

Mrs. Kwok was a director of the following limited liability company incorporated in Hong Kong prior to its dissolution by deregistration with details as follows:

Name of company	Nature of business immediately prior to dissolution	Date of dissolution
Sungo International Limited	Property holding ( <i>Note 1</i> )	15 February 2018 ( <i>Note 2</i> )

*Notes:*

- (1) The Property and the car park were sold to Independent Third Parties in November 2009 and December 2009 respectively. Since then, the board of directors left Sungo International Limited dormant.
- (2) As confirmed by Ms. Chan, Sungo International Limited was deregistered voluntarily as the company has been dormant since December 2009.



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## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

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Mrs. Kwok confirmed that the above company was solvent immediately prior to its dissolution and that there was no wrongful act on her part leading to the dissolution of the above company by deregistration and she is not aware of any actual or potential claim that has been or will be made against her as a result of the dissolution of the above company.

### Independent Non-executive Directors

**Mr. Chan Hon Wah (陳漢華)**, aged 68, is an independent non-executive Director of our Company. Mr. Chan has more than 39 years of experience in the field of accounting, corporate finance and management.

Mr. Chan obtained a Master's degree in Business Administration (Investment and Finance) from The University of Hull in June 1997. He was admitted as a member of the Certified General Accountants Association of Canada in September 1992. He was admitted as a chartered professional accountant member of the Chartered Professional Accountants of British Columbia, Canada in June 2015.

Mr. Chan worked in The Bank of Nova Scotia from January 1979 to June 1986 and then again from April 1989 to July 2007 and his last position was vice-president. Mr. Chan was a chief operations officer of EPI (Holdings) Limited, a company listed on the Stock Exchange (Stock Code: 0689) with principal business of exploration and production of oil and gas from August 2007 to February 2011, a finance director of DSC Administration Limited, which was a furniture and electrical appliance retailer, from February 2012 to March 2013, and an executive director of China Kingstone Mining Holdings Limited, a company listed on the Stock Exchange (stock code: 1380) with principal business of production and sale of marble and marble-related products from July 2015 to December 2015. Mr. Chan was the chief executive officer of Best New Management Ltd from August 2015 to June 2018 with principal business of operation of a restaurant group under the brand name of Tamjai Samgor Mixian.

**Mr. Chu Kin Ming (朱健明)**, aged 38, is an independent non-executive Director of our Company. Mr. Chu has more than 15 years of experience in the accounting and company secretarial field.

Mr. Chu obtained his Bachelor of Arts degree in Accountancy from the Hong Kong Polytechnic University in November 2003. Mr. Chu was admitted as (i) a member and subsequently a fellow member of the Association of Chartered Certified Accountants in December 2007 and December 2012 respectively; (ii) a member of the Hong Kong Institute of Certified Public Accountants in July 2008; (iii) a member and subsequently an associate of the Institute of Chartered Secretaries and Administrators in February 2009 and April 2009 respectively; (iv) an associate of the Hong Kong Institute of Chartered Secretaries in April 2009; (v) an associate of the Taxation Institute of Hong Kong in September 2010; and (vi) a member of the Chartered Institute of Management Accountants in September 2010. Mr. Chu was admitted as a certified tax advisor in September 2010.

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## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

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Prior to joining our Group as an independent non-executive Director, Mr. Chu worked in various companies with details as follows:

Name of company	Nature of business of the company during the working period	Last position	Working period
BDO McCabe Lo & Company	Provision of tax, audit and assurance and advisory services	Associate 2	From December 2003 to July 2005
BDO McCabe Lo Limited	Provision of tax, audit and assurance and advisory services	Senior associate 1	From August 2005 to December 2005
Deloitte Touche Tohmatsu	Provision of tax, audit and assurance and advisory services	Senior	From December 2005 to January 2008
Wang Sing International Holdings Group Limited, a company listed on the Stock Exchange (stock code: 2389)	Production and sale of powertools, airtools, hand tools and housewares	Financial controller and company secretary	From January 2008 to June 2009
Prosperity International Holdings (H.K.) Limited, a company listed on the Stock Exchange (stock code: 803)	(i) real estate investment and development; (ii) mining and trading of raw materials; and (iii) trading of building materials	Financial controller	From June 2009 to June 2015
Ares Asia Limited, a company listed on the Stock Exchange (stock code: 645)	Coal trading and entailing the selling of thermal and coking coal	Finance controller and company secretary	From June 2015 to February 2016
KEE Holdings Company Limited, a company listed on the Stock Exchange (stock code: 2011) (Note)	Manufacturing of zipper and provision real estate agency service business	Chief financial controller and company secretary	From February 2016 to February 2018
Ascent International Holdings Limited, a company listed on the Stock Exchange (stock code: 264) (Note)	Manufacturing and distribution of leather products and retail of fashion apparel, footwear and leather accessories	Chief financial controller and company secretary	From February 2016 to February 2018
Sino-life Group Limited (stock code: 8296)	Funeral related services	Company secretary	From June 2019 to present

*Note:* Both KEE Holdings Company Limited and Ascent International Holdings Limited are subsidiaries of ZhongHong Holding Company Limited, a company listed on Shenzhen Stock Exchange (stock code: 979) with principal business of property development and sales during the working period of Mr. Chu.

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## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

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Mr. Chu is currently an independent non-executive director of SK Target Group Limited, a company listed on the Stock Exchange (stock code: 8427) with principal business of manufacturing and trading of precast concrete junction boxes in Malaysia.

**Mr. Lee Wai Ming (李偉明)**, aged 51, is an independent non-executive Director of our Company. Mr. Lee has more than 25 years of experience in the field of accounting, corporate finance and management.

Mr. Lee obtained a Bachelor of Arts (Hons) degree in Accountancy from the Hong Kong Polytechnic University in November 1993. Mr. Lee was admitted as (i) a member of the Hong Kong Institute of Certified Public Accountants in July 1998; and (ii) a fellow of the Association of Chartered Certified Accountants in April 2003.

Mr. Lee started his career in Deloitte Touche Tohmatsu from July 1993 to December 2003 with his last position as a manager. He then served as the financial controller and company secretary in Zhi Cheng Holdings Limited (formerly known as Milkyway Image Holdings Limited), a company listed on the Stock Exchange (stock code: 8130) with principal business of media and entertainment and advertising and marketing, from May 2004 to July 2007. From June 2010 to October 2013, Mr. Lee worked as the finance manager of Viva China Holdings Limited, a company listed on the Stock Exchange (stock code: 8032) with principal business of provision of sport-related services and property and community development. From October 2013 to December 2016, Mr. Lee served as the financial controller and company secretary in Wealth Glory Holdings Limited, a company listed on the Stock Exchange (stock code: 8269) with principal business of trading of coal, manufacturing and trading of consumer goods. Since September 2017, Mr. Lee has been working as a chief financial officer of ArtGo Holdings Limited, a company listed on the Stock Exchange (stock code: 3313) with principal business of mining, processing, trading and sales of marble stone and trading of commodities.

### **Other disclosure pursuant to Rule 13.51(2) of the Listing Rules**

Save as disclosed above, each of our Directors (i) did not hold other positions in our Company or other members of our Group as at the Latest Practicable Date; (ii) had no other relationship with any Directors, senior management or substantial or controlling shareholders of our Company as at the Latest Practicable Date; and (iii) did not hold any other directorships in listed companies in the three years prior to the date of this prospectus. Immediately following completion of the Share Offer and the Capitalisation Issue, save as the interests in the Shares which are disclosed in the section headed “Substantial Shareholders” in this prospectus, each of our Directors will not have any interest in the Shares within the meaning of Part XV of the SFO.

Save as disclosed herein, to the best of the knowledge, information and belief of our Directors having made all reasonable enquiries, there were no other matters with respect to the appointment of our Directors that need to be brought to the attention of our Shareholders and there was no information relating to our Directors that is required to be disclosed pursuant to Rules 13.51(2)(h) to (v) of the Listing Rules as at the Latest Practicable Date.

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## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

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### SENIOR MANAGEMENT

The following table sets forth certain information regarding our senior management:

Names of Senior Management	Age	Present position(s) in our Group	Date of appointment as senior management	Date of joining our Group	Brief description of roles and responsibilities	Relationship among Directors and senior management
Tsang Wing Kiu (曾詠翹)	45	Chief financial officer and company secretary	15 April 2019	15 April 2019	Overseeing and supervising the financial management, accounting operations and regulatory compliance of our Group	Nil

**Ms. Tsang Wing Kiu (曾詠翹)**, aged 45, joined our Group on 15 April 2019 as chief financial officer and was subsequently appointed as company secretary on 3 May 2019. She has over 21 years of experience in accounting, finance and auditing. She is responsible for overseeing and supervising the financial management, accounting operations and regulatory compliance of our Group.

Ms. Tsang obtained a degree of bachelor of arts in business administration from the University of Greenwich in July 1995 and a degree of master of science in accountancy from The Hong Kong Polytechnic University in December 2006.

Prior to joining our Group, Ms. Tsang worked as chief financial officer and company secretary at Satu Holdings Limited, a company listed on the Stock Exchange (stock code: 8392) with principal business of design, development and production management of homeware products for the period from 1 April 2017 to 31 December 2018. She worked at RSM Hong Kong, an international accounting firm, from April 2002 to September 2016 and her last position was senior manager. Ms. Tsang worked as an accountant or assistant accountant or accounting officer in various private companies in Hong Kong for the period from March 1996 to August 2001. She is a member of The Institute of Chartered Accountants in England and Wales and the Hong Kong Institute of Certified Public Accountants.

Ms. Tsang did not have any directorships in any listed company over the past three years and she does not have any relationship with any Director, substantial shareholder or controlling shareholder of our Company.

### COMPANY SECRETARY

**Ms. Tsang Wing Kiu (曾詠翹)** was appointed as a company secretary of our Company on 3 May 2019. Please refer to the paragraph headed “Directors, Senior Management and Employees – Senior Management” for details of Ms. Tsang’s qualifications and experience.

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## **DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES**

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### **COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE**

We are committed to achieving high standards of corporate governance with a view to safeguarding the interests of our Shareholders. To accomplish this, we will comply with the code provisions set out in the Corporate Governance Code in Appendix 14 to the Listing Rules after the Listing.

### **BOARD COMMITTEES**

#### **Audit committee**

We have established an audit committee on 22 June 2019. On 22 June 2019, the audit committee approved the written terms of reference in compliance with Rule 3.21 of the Listing Rules and the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules which will come into effect upon the Listing. The audit committee consists of all the independent non-executive Directors, namely, Mr. Chu Kin Ming, Mr. Chan Hon Wah and Mr. Lee Wai Ming. Mr. Chu Kin Ming is the chairman of the audit committee. The primary duties of the audit committee are, among other things, to review and supervise the financial reporting process and the internal control systems of our Group and to review our Company's interim and annual reports and financial statements.

#### **Remuneration committee**

We have established a remuneration committee on 22 June 2019. On 22 June 2019, the remuneration committee approved the written terms of reference in compliance with Rule 3.25 of the Listing Rules and the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules, which will come into effect upon the Listing. The remuneration committee consists of four members, namely, Mr. Joe Kwok, Mr. Chan Hon Wah, Mr. Chu Kin Ming and Mr. Lee Wai Ming. Mr. Chan Hon Wah is the chairman of the remuneration committee. The primary duties of the remuneration committee are to make recommendations to our Board on the remuneration of the Directors and senior management of our Company, determine on behalf of our Board specific remuneration packages and conditions of employment for the Directors and senior management of our Company, and to assess the performance of the Directors and senior management of our Company.

#### **Nomination committee**

We have established a nomination committee on 22 June 2019. On 22 June 2019, the nomination committee has approved the written terms of reference in compliance with the Corporate Governance Code and Corporate Governance Report, as set out in Appendix 14 to the Listing Rules, which will come into effect upon the Listing. The nomination committee consists of four members, namely, Mr. Joe Kwok, Mr. Chan Hon Wah, Mr. Chu Kin Ming and Mr. Lee Wai Ming. Mr. Joe Kwok is the chairman of the nomination committee. The primary duties of the nomination committee are to make recommendations to our Board regarding candidates to fill vacancies on our Board.

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## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

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### **Risk management committee**

We have established a risk management committee on 22 June 2019. On 22 June 2019, the risk management committee approved the written terms of reference in compliance with the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules, which will come into effect upon Listing. The risk management committee consists of three members, namely, Mr. Lee Wai Ming, Mr. Chan Hon Wah and Mr. Chu Kin Ming. Mr. Lee Wai Ming is the chairman of risk management committee. The primary duties of the risk management committee are to enhance our Company's risk management ability and improve corporate governance of our Company, as well as to assess the latest sanctions-related risks our operations may be exposed to.

### **Board Diversity Policy**

We have adopted a board diversity policy (the “**Board Diversity Policy**”), which sets out the objective and approach to achieve and maintain diversity on our Board. We will ensure that the members of our Board have the appropriate balance of skills, experience and diversity of perspectives that are required to support our Group's business strategy. Pursuant to the Board Diversity Policy, we seek to achieve Board diversity through consideration of various factors such as professional experience, skills, knowledge, gender, age, cultural and education background, ethnicity and length of service. The nomination committee is delegated to be responsible for compliance with relevant code governing board diversity under the Corporate Governance Code and Corporate Governance Report in Appendix 14 to the Listing Rules and, after Listing, will review the Board Diversity Policy from time to time to ensure its continued effectiveness. Our implementation of the Board Diversity Policy will be disclosed in our corporate governance report on an annual basis.

### **DIRECTORS' REMUNERATION**

For each of the three years ended 31 December 2016, 2017 and 2018, the aggregate amount of fees, salaries, allowances, discretionary payments, bonuses and contribution to pension schemes paid by our Company to our Directors were approximately HK\$4.7 million, HK\$4.4 million and HK\$4.0 million respectively. It is estimated that under the arrangements currently in force, the aggregate remuneration (including directors' fee, basic salary, allowance, non-cash benefit and retirement scheme contribution) payable to our Directors (including the independent non-executive Directors) for the year ending 31 December 2019 is estimated to be approximately HK\$5.4 million. We shall maintain relevant liability insurance for our Directors upon Listing.

The remuneration paid by our Company to our top five highest paid individuals (including our Directors) for each of the three years ended 31 December 2016, 2017 and 2018 were approximately HK\$1.1 million, HK\$1.0 million and HK\$1.5 million respectively.

During the Track Record Period, no remuneration was paid by our Company to, or receivable by, our Directors or our five highest paid individuals as an inducement to join or upon joining our Company. No compensation was paid by our Company to, or receivable by, our Directors, past Directors or our five highest paid individuals for the loss of any office in connection with the management of the affairs of any subsidiary of our Company during the Track Record Period.

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## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

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During the Track Record Period, none of our Directors waived any emoluments. Save as disclosed above, no other payments have been paid, or are payable, by our Company or any of our subsidiaries to our Directors or our five highest paid individuals during the Track Record Period.

Under the remuneration policy of our Company, the remuneration committee will consider factors, such as salaries paid by comparable companies, tenure, commitment, responsibilities and performance, in assessing the amount of remuneration payable to our Directors, senior management and employees.

### EMPLOYEES

As at the Latest Practicable Date, our Group had 1,068 employees located in Hong Kong and the PRC. For details, please refer to the paragraph headed “Business – Employees” in this prospectus.

### EMPLOYEES’ RELATIONS

We maintain good working relations with our staff. We have not experienced any significant problems with the recruitment and retention of experienced employees. In addition, we have not suffered from any material disruption of our normal business operations as a result of labour disputes or strikes. The remuneration payable to our employees includes salaries, discretionary bonuses and commission.

As required by the employment laws in Hong Kong, our Group participates in a provident fund scheme registered under the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong) for all our eligible employees in Hong Kong. We contribute 5% of our employees’ relevant income per month as required under the ordinance subject to a maximum of HK\$1,500 per employee (commencing from 1 June 2014). Contributions from us are 100% vested in each employee immediately but, subject to limited exceptions, all benefits derived from the mandatory contributions must be preserved until the employee reaches the retirement age of 65 or ceases employment and the employee declares not to become employed or self-employed within the foreseeable future. We also provide labour insurance for each of our Hong Kong staff.

In the PRC, in accordance with relevant national and local labour and social welfare laws and regulations, we are required to pay in respect of our employees in the PRC various social insurance including basic pension insurance, basic medical insurance, unemployment insurance, occupational injury insurance, hospital insurance and insurance for maternity leave.

Bonuses are generally discretionary and based on the overall performance of our Group’s business. We believe that our employer-employee relations are satisfactory in general. We believe that the management policies, working environment, career prospects and benefits extended to our employees have contributed to employee retention and building of amicable employee relations.

### CORPORATE GOVERNANCE

Our Company intends to comply with all the Corporate Governance Code contained in Appendix 14 to the Listing Rules after the Listing. Our Directors will review our corporate governance policies and compliance with the Corporate Governance Code each financial year and comply with the “comply or explain” principle in our corporate governance report, which will be included in our annual reports subsequent to the Listing.



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## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

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### COMPLIANCE ADVISER

We have appointed Cinda International as our compliance adviser pursuant to Rule 3A.19 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, the compliance adviser will advise us in the following circumstances:

- before our publication of any regulatory announcement, circular or financial report;
- where a transaction, which might be a notifiable or connected transaction under the Listing Rules, is contemplated, including share issues and share repurchases;
- where we have proposed to use the proceeds of the Share Offer in a manner different from that detailed in this prospectus or where our Group's business activities, developments or results of operation deviate from any forecast, estimate or other information in this prospectus; and
- where the Stock Exchange makes an inquiry of us regarding unusual movements in the price or trading volume of the Shares or any other matters under Rule 13.10 of the Listing Rules.

The term of the appointment shall commence on the Listing Date and end on the date on which we comply with Rule 13.46 of the Listing Rules in respect of our financial results for the first full financial year commencing after the Listing Date (i.e. the date of despatch of the annual report of our Company in respect of our results for the financial year ending 31 December 2020), subject to early termination.

The compliance adviser shall provide us with services, including guidance and advice as to compliance with the requirements under the Listing Rules and applicable laws, rules, codes and guidelines, and to act as one of our principal channels of communication with the Stock Exchange.



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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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### OUR CONTROLLING SHAREHOLDERS

Immediately upon completion of the Capitalisation Issue and the Share Offer, Conquer will hold 75% of our Company's entire issued share capital (without taking into account the Shares which may be allotted and issued pursuant to the exercise of any options which may be granted under the Share Option Scheme). Conquer is owned as to 2%, 49% and 49% by Mrs. Kwok, Mr. Joe Kwok and Mr. Ken Kwok respectively.

On 3 January 2019, in preparation of the Listing, Mr. Kwok, Mrs. Kwok, Mr. Joe Kwok and Mr. Ken Kwok entered into the Concert Parties Confirmatory Deed to acknowledge and confirm, among other things, that they are parties acting in concert in respect of each of the members of our Group since their respective dates of incorporation and shall continue to do so after the date of the Concert Parties Confirmatory Deed. Details of the Concert Parties Confirmatory Deed are set out in the paragraph headed "History, Reorganisation and Group Structure – Parties acting in concert" in this prospectus. Accordingly, Mrs. Kwok, Mr. Joe Kwok, Mr. Ken Kwok and Conquer constitute a group of our Controlling Shareholders. For details regarding the shareholding interest of our Controlling Shareholders, please refer to the section headed "Substantial Shareholders" in this prospectus.

As Mr. Kwok is the spouse of Mrs. Kwok, Mr. Kwok is deemed to be interested in the shares of Conquer held by Mrs. Kwok under the SFO.

Among our Controlling Shareholders, Mr. Joe Kwok and Mr. Ken Kwok are the executive Directors of our Company whereas Mrs. Kwok is the non-executive Director of our Company. For further details, please refer to the paragraph headed "Directors, Senior Management and Employees – Directors" in this prospectus.

Save as disclosed herein, our Controlling Shareholders have confirmed that none of them and their respective associates is interested in any business which competes or is likely to compete, directly or indirectly, with the business of our Group.

### DELINEATION OF BUSINESS OF OUR GROUP AND THE BUSINESS OF OUR CONTROLLING SHAREHOLDERS

#### *1. LVJ Studio Eyewear Limited*

LVJ Studio Eyewear Limited ("LVJ Studio") is a limited company incorporated in Hong Kong on 11 March 2013. During the period from 11 March 2013 to 5 September 2017, LVJ Studio was owned as to 30% and 70% by Mr. Joe Kwok and an Independent Third Party respectively. Mr. Joe Kwok was also a sole director of LVJ Studio from 11 March 2013 to 15 March 2017. Between 11 March 2013 to 31 December 2016, LVJ Studio was principally engaged in trading of eyewear products.

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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During the Track Record Period, LVJ Studio had leased our Group's office address as its registered office and had purchased certain eyewear products from our Group. For the rental received and the amount of the transactions between LVJ Studio and our Group, please refer to note 38 to our consolidated financial statements included in the Accountants' Report in Appendix I to this prospectus. Our Directors are of the view that the aforesaid transactions were entered into in the ordinary course of business of our Group and on normal commercial terms. Save and except the aforesaid transactions, there was no other transaction entered into between our Group and LVJ Studio during the Track Record Period and up to the Latest Practicable Date.

On 31 December 2016, the board of directors of LVJ Studio decided to cease its business. Mr. Joe Kwok resigned as a sole director of LVJ Studio with effect from 15 March 2017 and transferred all his shareholding interest in LVJ Studio to an Independent Third Party on 5 September 2017. To the best knowledge of Mr. Joe Kwok, LVJ Studio was dissolved by deregistration on 17 May 2019 in accordance with section 751 of the Company Ordinance.

### **2. *First Express Holding Ltd, Aprospec Holdings Limited, Pro Eyes Optics Sdn. Bhd., A-Look Eyewear Sdn. Bhd. and OWL Eyewear Sdn. Bhd.***

Mr. Kwok, being our non-executive Director and an associate of the Controlling Shareholders, is interested in the entire issued share capital of First Express Holding Ltd ("**First Express**") which in turn is interested in approximately 3.6% of the shareholding interest of Aprospec Holdings Limited ("**Aprospec**"), a company incorporated in the Cayman Island. The remaining interest of Aprospec is owned as to approximately 38.1% by Ms. Kok Yoke Kin (a sister of Mr. Kwok), approximately 30.8% by Mr. Ngeow Sian Yeow (a nephew of Mr. Kwok), approximately 0.2% by Mr. Ngeow Sian Chun (a nephew of Mr. Kwok), approximately 8.5% by Ms. Tang Pui Ling (the spouse of Mr. Kwok's nephew) and approximately 18.8% by other Independent Third Parties. As at the Latest Practicable Date, Aprospec owns the entire equity interest of Pro Eyes Optics Sdn. Bhd. ("**Pro Eyes**"), A-Look Eyewear Sdn. Bhd. ("**A-Look**") and OWL Eyewear Sdn. Bhd. ("**OWL**"). Ms. Kok Yoke Kin directly and indirectly controls Aprospec, Pro Eyes, A-Look and OWL (collectively, the "**Private Group**"). As Ms. Kok Yoke Kin is a sister of Mr. Kwok, hence each of the Private Group companies is an associate of Mr. Kwok. Save and except his shareholding interests in the Private Group, Mr. Kwok does not have any directorship or hold any position in the Private Group.

First Express was a company incorporated in the BVI on 21 March 2006. First Express was struck off by the Register of Companies of the BVI for non-payment of annual fee since the year of 2014 and was restored to the Register of Companies of the BVI on 17 August 2018. Pursuant to section 217 of the BVI Business Companies Act, 2004, a company that is restored to the Register of Companies of the BVI is deemed never have been struck off. Accordingly, the interest of First Express in the Private Group remains valid and effective at all material time.

The Private Group companies are principally engaged in retail sale of spectacles, sunglasses and other eyewear products to end-customers in Malaysia, Vietnam and Indonesia. Please see the analysis of the delineation of business of the Private Group and our Group below.

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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### Business model

Both our Group and the Private Group are in the eyewear product industry, but they have different positions along the industrial chain. Our Group is positioned as an eyewear manufacturer that produces a wide range of spectacle frames and sunglasses primarily to eyewear retailers, trading companies and licensed brand owners. On the other hand, the Private Group companies are positioned as retailers which are principally engaged in retail sale of spectacles, sunglasses and other eyewear products to end-customers and do not manufacture eyewear products. Our Group is in the upstream business in the industry whereas the Private Group is in the downstream business in the industry.

Going forward, it is the strategy of our Group to continue its current business focus and will not expand to engage in the trading of eyewear products to end-customers.

### Geographical Operations

Our Group's major operating subsidiaries were incorporated in Hong Kong and the PRC which have business operations in Hong Kong and the PRC only. The Private Group companies were incorporated in Malaysia and have business operations in Malaysia, Vietnam and Indonesia.

Our business focuses on international market and our revenue mainly generated from the European market which mainly includes Netherlands, Italy, United Kingdom, France and Hungary. The business of the Private Group focuses on the Southeast Asia market which mainly includes Malaysia, Vietnam and Indonesia.

### Customers

Due to the difference in business focus, the nature of customers of our Group and the Private Group are different. The customers of our Group include renowned international eyewear retailers, trading companies and licensed brand owners whereas the customers of the Private Group are mainly end-customers of the eyewear products. There was no overlapping of customers between our Group and the Private Group during the Track Record Period and as at the Latest Practicable Date.

### Suppliers

The nature of the suppliers of our Group and the Private Group are different as a result of the different business focus. The suppliers of our Group include suppliers of raw materials, such as acetate, metal, lens, parts and accessories (which mainly include nose pads, screws and hinges) whereas the suppliers of the Private Group include manufacturers, wholesalers and trading companies of spectacles, sunglasses and other eyewear products. There was no overlapping of suppliers between our Group and the Private Group during the Track Record Period and up to the Latest Practicable Date.

## INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Our Directors consider that our Group is capable of carrying on its business independently from our Controlling Shareholders and their associates after Listing for the following reasons:

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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### Management independence

Our management and operational decisions are made by our Board and senior management. Our Board comprises two executive Directors, two non-executive Directors and three independent non-executive Directors. Although Mrs. Kwok, Mr. Joe Kwok and Mr. Ken Kwok, being our ultimate Controlling Shareholders, also hold directorships in our Company, we consider that our Board and senior management will function independently from our Controlling Shareholders because:

- (i) each Director is aware of his/her fiduciary duties as a Director which require, among others, that he/she acts for the benefit and in the best interest of our Company and does not allow any conflict between his/her duties as a Director and his/her personal interests;
- (ii) in the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and our Directors or their respective associates, the interested Director(s) shall abstain from voting at the relevant board meetings of our Company in respect of such transactions, and shall not be counted in forming quorum. Our Group has also adopted certain corporate governance measures for conflict situation, details of which are set out in the paragraph headed “Corporate governance measures” in this section;
- (iii) none of our independent non-executive Directors and senior management holds any role as a director or member of senior management in any close associate of our Controlling Shareholders;
- (iv) our senior management member is independent from our Controlling Shareholders and is able to discharge her duties independently from our Controlling Shareholders with her qualifications and experience;
- (v) our Company has appointed Cinda International as our compliance adviser, which will provide advice and guidance to our Group in respect of compliance with the applicable laws and Listing Rules including various requirements in relation to the Directors’ duties and corporate governance;
- (vi) the three independent non-executive Directors provide checks and balances over our Board’s decision-making on significant transactions. The audit committee of our Board, which comprises of the three independent non-executive Directors, is responsible for reviewing potential conflicts of interest (if any) as well as reviewing connected transactions (if any) falling within the scope of Chapter 14A of the Listing Rules. Such committee is also responsible for reviewing and approving the financial reporting process and internal control systems of our Group;
- (vii) other than the audit committee of our Board, we have also established a remuneration committee of our Board to ensure that Directors and senior management are properly remunerated without being over compensated; and
- (viii) we also have a nomination committee which is responsible for ensuring that only persons with capability and relevant experience are appointed as Directors and assessing the independence of our Directors on an annual basis.

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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Having considered the above factors, our Directors are satisfied that they are able to perform their roles in our Company independently, and our Directors are of the view that we are capable of managing our business independently from our Controlling Shareholders after the Share Offer.

### **Operational independence**

Our organisational structure is made up of individual departments, each with specific areas of responsibilities. We do not share our operational resources, such as marketing, sales and general administration resources with our Controlling Shareholders and/or their close associates during the Track Record Period and up to the Latest Practicable Date. We have also established a set of internal controls to facilitate the effective operation of the business.

Although we entered into a lease agreement with Ms. Lee (the spouse of Mr. Joe Kwok) in respect of the premises situated at Workshops 1605-1606, 16/F., Block B, New Trade Plaza, 6 On Ping Street, Sha Tin, New Territories, Hong Kong for office use, which is expected to continue after Listing, such transaction has been entered into and will continue to be entered into on normal commercial terms and in the ordinary course of business of our Company. Please refer to the section headed “Continuing Connected Transactions” of this prospectus for details of such continuing connected transaction that will continue after Listing.

Our Directors are of the view that there is no operational dependence by us on our Controlling Shareholders. Our operation does not rely on the lease from our Controlling Shareholders as comparable properties with similar rental are available in the vicinity and the cost of relocation is not substantial.

### **Financial independence**

We have an independent financial system and make financial decisions according to our own business needs. We make financial decisions according to our own business needs and neither our Controlling Shareholders nor their respective close associates intervenes with our use of funds. We have opened accounts with banks independently and have not shared any bank account with our Controlling Shareholders or their respective close associates. All outstanding loans or borrowings from any of our Controlling Shareholders or any of their respective close associates will be fully settled before the Listing.

As confirmed by the Directors, for the bank loan facilities of HK\$72.4 million as at the Latest Practicable Date, all the securities and guarantees provided by our Controlling Shareholders and their associates will be released upon Listing and will be replaced by corporate guarantee from our Group companies.

Our Directors confirm that we will not rely on our Controlling Shareholders for financing after the Share Offer as we expect that our working capital will be funded by our operating income and the estimated net proceeds from the Share Offer.

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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### DEED OF NON-COMPETITION

In order to avoid any future competition between our Group and our Controlling Shareholders, each of our Controlling Shareholders has under the Deed of Non-competition jointly and severally and unconditionally and irrevocably undertaken and covenanted with our Company (for itself and as trustee for each of its subsidiaries) that for so long as he/she/it and/or his/her/its associates, directly or indirectly, whether individually or taken together, remain a controlling shareholder of our Company:

- (i) he/she/it will not, and will procure his/her/its associates not to (other than through our Group or in respect of each of our Controlling Shareholders (together with his/her/its associates), as a holder of not more than 5% of the issued shares or stock of any class or debentures of any company listed on any recognised stock exchange) directly or indirectly carry on, engage or otherwise be interested (in each case whether as shareholder, director, partner, agent, employee or otherwise and whether for profit, reward or otherwise) in any business which is or may be in competition with the business carried on by our Group from time to time (the “**Restricted Activity**”), except where our Company’s approval as mentioned in the paragraph below is obtained.

Our Controlling Shareholders and their respective associates are entitled to engage or have an interest in any Restricted Activity if after offering such investment, engagement or participation (the “**New Business Opportunities**”) to our Company pursuant to (ii) below, our Company has confirmed in writing (the “**Approval Notice**”) that none of our Group members wishes to be engaged or interested in the relevant Restricted Activity and it has approved in writing the relevant Controlling Shareholders and their respective associates to engage or have any interest in the Restricted Activity. Any Director who is interested in the relevant Restricted Activity shall not vote on relevant resolutions approving the Approval Notice;

- (ii) if any of our Controlling Shareholders and/or his/her/its associates decide to invest, be engaged, or participate in any Restricted Activity, whether directly or indirectly, in compliance with the Deed of Non-competition, he/she/it will and/or will procure his/her/its associates (other than members of our Group) to disclose the terms of such investment, engagement or participation to our Company and our Directors as soon as practicable and use his/her/its best endeavours to procure that the New Business Opportunities are offered to our Company on terms no less favourable than the terms on which the New Business Opportunities are offered to him/her/it and/or his/her/its associates. When any New Business Opportunities are referred to our Company by our Controlling Shareholders, the independent non-executive Directors of our Company will consider such opportunity on various aspects including viability and profitability;
- (iii) he/she/it will not, and will procure his/her/its associates not to, directly or indirectly, solicit, interfere with or entice away from any member of our Group, any natural person, legal entity, enterprise or otherwise who, to any of our Controlling Shareholder’s knowledge, as at the date of the Deed of Non-competition, is or has been or will after the date of the Deed of Non-competition be, a customer, supplier, distributor, sales or management, technical staff or an employee (of managerial grade or above) of any member of our Group; and

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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- (iv) he/she/it will not, and will procure his/her/its associates not to, exploit his/her/its knowledge or information obtained from our Group to compete, directly or indirectly, with the Restricted Activity.

The Deed of Non-competition and the rights and obligations thereunder are conditional and will take effect immediately upon Listing.

The obligations of our Controlling Shareholders under the Deed of Non-competition will remain in effect until:

- (a) the date on which the Shares cease to be listed on the Stock Exchange; or
- (b) our Controlling Shareholders and his/her/its associates, individually and/or collectively, cease to be deemed as a controlling shareholder of our Company (within the meaning defined in the Listing Rules from time to time); or
- (c) our Controlling Shareholders and his/her/its associates, individually and/or collectively beneficially own or are interested in the entire issued share capital of our Company,

whichever occurs first.

Nothing in the Deed of Non-competition shall prevent our Controlling Shareholders or any of their associates from carrying on any business whatsoever other than the Restricted Activity.

### CORPORATE GOVERNANCE MEASURES

The following corporate governance measures will be adopted to monitor the compliance of the Deed of Non-competition:

- (i) our independent non-executive Directors shall review, at least on an annual basis, the compliance with the Deed of Non-competition by our Controlling Shareholders and their respective associates on their existing or future competing businesses;
- (ii) our Controlling Shareholders shall promptly provide all information necessary for the annual review by our Company's independent non-executive Directors and the enforcement of the Deed of Non-competition and provide to our Company a written confirmation relating to the compliance of the Deed of Non-competition and make an annual declaration on compliance with the Deed of Non-competition in the annual report of our Company;
- (iii) our Company shall disclose decisions on matters reviewed by its independent non-executive Directors relating to the compliance and enforcement of the undertakings provided by our Controlling Shareholders either through the corporate governance report as set out in the annual report of our Company and/or by way of announcements to the public;

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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- (iv) any New Business Opportunities under the Deed of Non-competition and all other matters determined by our Board as having a potential conflict of interest with our Controlling Shareholders will be referred to our independent non-executive Directors for discussion and decision. When necessary, such independent non-executive Directors will engage an independent financial adviser to advise them on the relevant matters. In the event any New Business Opportunities presented by or otherwise arising in connection with any of our Controlling Shareholders are turned down by our Group according to the Deed of Non-competition, our Company will disclose the decision, as well as the basis for such decision in the annual report or interim report of our Company. The annual report of our Company will include the views and decisions, with bases, of our independent non-executive Directors on whether to take up any New Business Opportunities under the Deed of Non-competition or other matters having a potential conflict of interest with our Controlling Shareholders that have been referred to our independent non-executive Directors;
- (v) further, if a Controlling Shareholder or a Director has a conflict of interest in a matter to be considered, he/she/it shall act in accordance with the requirements of the Listing Rules, regarding abstain from voting on such matter; and
- (vi) the compliance adviser of our Company shall provide our Company with professional advice on compliance of continuing obligations under the Listing Rules in accordance with the provisions of the compliance adviser agreement and the requirements of the Listing Rules.



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## CONTINUING CONNECTED TRANSACTIONS

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### OVERVIEW

During the Track Record Period, our Group had entered into the following two transactions with connected persons of our Company, and these two transactions will continue following Listing which constitute continuing connected transactions of our Group pursuant to the Listing Rules. Details of such continuing connected transactions are set out below.

### EXEMPT CONTINUING CONNECTED TRANSACTIONS

#### 1. Office Lease Agreement

On 20 June 2019, a lease agreement (the “**Office Lease Agreement**”) was entered into between Ms. Lee (as landlord) and our Company (for itself and on behalf of its subsidiaries) (as tenant) in respect of the premises situated at Workshops 1605 - 1606, 16/F., Block B, New Trade Plaza, 6 On Ping Street, Sha Tin, New Territories, Hong Kong (the “**Office Premises**”) with a saleable area of approximately 1,610 square feet for office use.

The Office Lease Agreement was leased for the period commencing from 1 July 2019 and ending on 31 December 2021 (both days inclusive) at a monthly rental of HK\$38,600 (inclusive of government rates and government rent but exclusive of management fee). It is expected that the aggregate rental payable by our Company to Ms. Lee for each of the three financial years ended 2021 will not exceed the annual cap of HK\$463,200, HK\$463,200 and HK\$463,200 respectively. The monthly rental is payable in advance on the first day of each and every successive calendar month.

The monthly rental was determined after arm’s length negotiations between the parties by making reference to the prevailing market rates of similar properties in the vicinity. Greater China Appraisal Limited, an independent property valuer, has been engaged to confirm that the monthly rental under the Office Lease Agreement is consistent with the prevailing market rates of similar properties in the similar location and is fair and reasonable.

Ms. Lee is the spouse of Mr. Joe Kwok, who is our executive Director and our Controlling Shareholder. As such, Ms. Lee is a connected person pursuant to the Listing Rules. Accordingly, the Office Lease Agreement constitutes a continuing connected transaction for our Company under the Listing Rules.

During the Track Record Period, Kelfred and Ms. Lee entered into a lease agreement (the “**Lease Agreement**”) pursuant to which Kelfred rented from Ms. Lee in respect of the Office Premises at a monthly rental of HK\$35,000 (inclusive of government rates but exclusive of management fee) since 1 July 2017. For each of the three years ended 31 December 2018, the historical rental paid by Kelfred to the Landlord amounted to nil, HK\$210,000 and HK\$420,000 respectively. Greater China Appraisal Limited, an independent property valuer, confirmed that the monthly rental under the Lease Agreement, is consistent with the prevailing market rates of similar properties in the similar location and is fair and reasonable.

As the relevant applicable percentage ratios with respect to the transaction contemplated under the Office Lease Agreement on an annual basis are less than 5% and the total consideration is less than HK\$3,000,000, the Office Lease Agreement constitutes an exempt continuing connected transaction of our Company under Rule 14A.76(1) of the Listing Rules, and is exempt from the reporting, annual review, announcement and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

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## CONTINUING CONNECTED TRANSACTIONS

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### *Confirmation from our Directors*

Our Directors (including our independent non-executive Directors), after taking into account of the view of Greater China Appraisal Limited that the monthly rental under the Office Lease Agreement is at prevailing market rate, confirm that the Office Lease Agreement has been entered into in the ordinary and usual course of business of our Group on normal commercial terms, and the terms of the Office Lease Agreement are fair and reasonable and in the interests of our Company and Shareholders as a whole.

### **2. Consultancy Agreement with Mr. Russell**

Mr. Russell became acquainted to Mr. Ken Kwok in around 2011 at a business event. Since Mr. Ken Kwok knew that Mr. Russell has extensive experience in optical industry and during that period of time our Group has developed and continued to expand the European market, our Group has subsequently engaged Mr. Russell to provide consultancy services for our Group. During the Track Record Period, Mr. Russell has been providing our Group with consultancy services in relation to our Group's business. His scope of consultancy services includes but not limited to liaising, coordinating and negotiating with our Group's customers and potential customers and referring new business opportunities to our Group. Mr. Russell received £33,000 (which was then equivalent to approximately HK\$347,000), £33,000 (which was then equivalent to approximately HK\$335,000) and £33,000 (which was then equivalent to approximately HK\$347,000) for the provision of the said consultancy services to our Group for the three years ended 31 December 2018 respectively.

Following the Listing, we expect Mr. Russell will continue to provide our Group with consultancy services. On 20 June 2019, our Company (for itself and on behalf of its subsidiaries) entered into a consultancy agreement (the "**Consultancy Agreement**") with Mr. Russell for a term commencing from the Listing Date and ending on 31 December 2021. Under the Consultancy Agreement, Mr. Russell will be entitled to a consultancy fee of £2,750 (equivalent to approximately HK\$27,300) per month (subject to review and adjustments by our Board from time to time) which was determined with reference to Mr. Russell's experience, duties and responsibilities as a consultant within our Group and the historical consultancy fee payable by our Group to Mr. Russell. It is expected that the aggregate consultancy fee payable by Kelfred to Mr. Russell for each of the three financial year ending 31 December 2021 will not exceed the annual cap of £33,000 (equivalent to approximately HK\$327,565), £33,000 (equivalent to approximately HK\$327,565), £33,000 (equivalent to approximately HK\$327,565) respectively. The Consultancy Agreement with Mr. Russell is conducted in the ordinary and usual course of our business at arm's length basis on normal commercial terms. Our Group has also taken into account of the market rate for similar services so as to ensure that the terms of the Consultancy Agreement shall not be more favourable than the terms that could be offered by our Group to an Independent Third Party.

Mr. Russell is a director and a substantial shareholder of Central Designs and thus a connected person pursuant to the Listing Rules. Accordingly, the Consultancy Agreement constitutes as a continuing connected transaction for our Company under the Listing Rules.

As the relevant applicable percentage ratios with respect to the transaction contemplated under the Consultancy Agreement on an annual basis are less than 5% and the total consideration is less than HK\$3,000,000, the Consultancy Agreement constitutes an exempt continuing connected transaction of our Company under Rule 14A.76(1) of the Listing Rules, and is exempt from the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

### *Confirmation from our Directors*

Our Directors (including our independent non-executive Directors) confirm that the Consultancy Agreement has been entered into in the ordinary and usual course of business of our Group on normal commercial terms, and the terms of the Consultancy Agreement are fair and reasonable and in the interests of our Company and Shareholders as a whole.

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## SUBSTANTIAL SHAREHOLDERS

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### SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, immediately following completion of the Capitalisation Issue and the Share Offer (without taking into account any Shares which may be allotted and issued pursuant to the exercise of any options that may be granted under the Share Option Scheme), the following persons/entities will have interests or short positions in our Shares or underlying Shares which would be required to be disclosed to us and the Stock Exchange under the provisions of Division 2 and 3 of Part XV of the SFO, or are directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group:

Name of Substantial Shareholders	Capacity/Nature of Interest	Number of Shares (Note 1)	Approximate percentage of shareholding interests of our Company
Conquer <sup>(Note 2)</sup>	Beneficial owner	375,000,000(L)	75%
Mr. Joe Kwok <sup>(Note 2)</sup>	Interest in controlled corporation	375,000,000(L)	75%
Ms. Lee <sup>(Note 3)</sup>	Interest of spouse	375,000,000(L)	75%
Mr. Ken Kwok <sup>(Note 2)</sup>	Interest in controlled corporation	375,000,000(L)	75%
Ms. Siu <sup>(Note 4)</sup>	Interest of spouse	375,000,000(L)	75%
Mrs. Kwok <sup>(Note 5)</sup>	Interest in controlled corporation; interest held jointly with another person	375,000,000(L)	75%
Mr. Kwok <sup>(Note 6)</sup>	Interest of spouse	375,000,000(L)	75%

Notes:-

1. The Letter "L" denotes the entity/person's long interest in our Shares.
2. Conquer is owned as to 2% by Mrs. Kwok, 49% by Mr. Joe Kwok and 49% by Mr. Ken Kwok. As each of Mr. Joe Kwok and Mr. Ken Kwok holds 49% shareholding interest in Conquer, each of Mr. Joe Kwok and Mr. Ken Kwok is deemed to be interested in the Shares held by Conquer under the SFO.
3. Ms. Lee is the spouse of Mr. Joe Kwok and is deemed to be interested in all the Shares interested by Mr. Joe Kwok for the purposes of the SFO.

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## SUBSTANTIAL SHAREHOLDERS

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4. Ms. Siu is the spouse of Mr. Ken Kwok and is deemed to be interested in all the Shares interested by Mr. Ken Kwok for the purposes of the SFO.
5. On 3 January 2019, Mr. Kwok, Mrs. Kwok, Mr. Joe Kwok and Mr. Ken Kwok entered into the Concert Parties Confirmatory Deed to acknowledge and confirm, among other things, that they are parties acting in concert in respect of each of the members of our Group since their respective dates of incorporation and shall continue to do so after the date of the Concert Parties Confirmatory Deed. Details of the Concert Parties Confirmatory Deed are set out in the paragraph headed “History, Reorganisation and Group Structure – Parties acting in concert” in this prospectus. Accordingly, Mrs. Kwok, Mr. Joe Kwok, Mr. Ken Kwok and Conquer are considered as a group of our Controlling Shareholders and Mrs. Kwok is deemed to be interested in the Shares held by Conquer under the SFO.
6. Mr. Kwok is the spouse of Mrs. Kwok and is deemed to be interested in all the Shares interested by Mrs. Kwok for the purposes of the SFO.

Save as disclosed herein, our Directors are not aware of any person who will, immediately following completion of the Share Offer and the Capitalisation Issue but taking no account of any Shares to be issued pursuant to options which may be granted under the Share Option Scheme, have an interest or a short position in Shares or underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, who will, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group and are therefore regarded as substantial shareholders under the Listing Rules.

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## SHARE CAPITAL

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The following table is prepared on the basis that the Capitalisation Issue and the Share Offer have become unconditional. This table, however, takes no account of any Shares which may be allotted and issued by our Company pursuant to the exercise of any options which may be granted under the Share Option Scheme and of any Shares which may be allotted and issued or repurchased by our Company under the general mandates for the allotment and issue or repurchase of Shares granted to our Directors as referred to below.

### Authorised share capital:

<u>2,000,000,000</u> Shares of HK\$0.01 each	<u>HK\$20,000,000</u>
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### Shares in issue or to be issued, fully paid or credited as fully paid:

101 Shares in issue at the date of this prospectus	HK\$1.01
374,999,899 Shares to be issued under the Capitalisation Issue ( <i>Note</i> )	HK\$3,749,998.99
<u>125,000,000</u> Shares to be issued under the Share Offer	<u>HK\$1,250,000</u>
 500,000,000 Shares in total	 <u>HK\$5,000,000</u>

*Note:* Pursuant to the written resolutions of our sole Shareholder passed on 22 June 2019, conditional upon the share premium account of our Company being credited as a result of the Share Offer, our Directors were authorised to capitalise the amount of HK\$3,749,998.99 from the amount standing to the credit of the share premium account of our Company and to apply HK\$3,749,998.99 to pay up in full at par 374,999,899 Shares for allotment and issue to Conquer.

## MINIMUM PUBLIC FLOAT

The minimum level of public float to be maintained by our Company at all times after Listing under the Listing Rules is 25% of our share capital in issue from time to time.

## RANKING

The Offer Shares will rank *pari passu* in all respects with all Shares in issue or to be issued as mentioned herein, and will qualify for all dividends or other distributions declared, made or paid after the date of this prospectus, save for entitlements under the Capitalisation Issue.

## SHARE OPTION SCHEME

We have conditionally adopted the Share Option Scheme. Details of the principal terms are summarised in the paragraph headed “E. Share Option Scheme” in Appendix V to this prospectus.

Our Group does not have any outstanding share options, warrants, convertible instruments, pre-IPO share options or similar rights convertible into the Shares as at the Latest Practicable Date.

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## SHARE CAPITAL

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### GENERAL MANDATE

Subject to the Share Offer becoming unconditional, our Directors have been granted a general unconditional mandate to exercise all powers of our Company to allot, issue and deal with, otherwise than by way of rights issue or an issue of Shares upon exercise of any subscription rights attached to any warrants or convertible securities or pursuant to the exercise of any options which might be granted under the Share Option Scheme or any other option scheme(s) or other similar arrangements or under the Share Offer or any scrip dividends in accordance with the Articles or a specific authority granted by the Shareholders, Shares or securities or options convertible into Shares and to make and grant offers and agreements which would or might require Shares to be allotted with an aggregate nominal value not exceeding the sum of:

- 20% of the aggregate nominal value of our share capital in issue as enlarged by the Share Offer and the Capitalisation Issue (excluding Shares which may be issued pursuant to the exercise of options under the Share Option Scheme); and
- the aggregate nominal amount of our share capital repurchased under the authority granted by us to our Directors pursuant to the Repurchase Mandate referred to below (if any).

This general mandate will remain in effect until:

- the conclusion of our next annual general meeting;
- the expiration of the period within which our next annual general meeting is required by the Memorandum and the Articles or any applicable law to be held; or
- the revocation or variation by an ordinary resolution of the Shareholders in general meeting,

whichever is the earliest.

For further details of this general mandate, please refer to the paragraph headed “A. Further information about our Company – 4. Written resolutions of our sole Shareholder” in Appendix V to this prospectus.

### REPURCHASE MANDATE

Subject to the Share Offer becoming unconditional, our Directors have been granted a general unconditional mandate to exercise all our powers to repurchase on the Stock Exchange, or on any other stock exchange on which the securities of our Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, Shares with an aggregate nominal value not exceeding 10% of the aggregate nominal amount of our share capital in issue immediately following completion of the Share Offer and the Capitalisation Issue (excluding Shares which may be issued pursuant to the exercise of options under the Share Option Scheme).

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## SHARE CAPITAL

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The general mandate to repurchase Shares will remain in effect until:

- the conclusion of our next annual general meeting;
- the expiration of the period within which our next annual general meeting is required by the Memorandum and the Articles or any applicable law to be held; or
- the revocation or variation by an ordinary resolution of our Shareholders in general meeting,

whichever is the earliest.

For further details of this repurchase mandate, please refer to the paragraph headed “A. Further information about our Company – 4. Written resolutions of our sole Shareholder” in Appendix V to this prospectus.

### **CIRCUMSTANCES UNDER WHICH GENERAL MEETING AND CLASS MEETING ARE REQUIRED**

The circumstances under which general meeting and class meeting are required are provided in the Articles of Association. For details, please see the section headed “Summary of the Constitution of our Company and Cayman Islands Company Law” in Appendix IV to this prospectus.

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## FINANCIAL INFORMATION

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*You should read this section in conjunction with our consolidated financial statements, including the notes thereto, as set out in the Accountants' Report set out in Appendix I to this prospectus. Our Company's consolidated financial statements have been prepared in accordance with the Hong Kong Financial Reporting Standards ("HKFRSs"). You should read the entire Accountants' Report and not merely rely on the information contained in this section.*

*The following discussion and analysis contains certain forward-looking statements that reflect the current views with respect to future events and financial performance. These statements are based on assumptions and analyses made by our Company in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors our Company believes are appropriate under the circumstances. However, whether actual outcomes and developments will meet our Company's expectations and projections will depend on a number of risks and uncertainties over which our Company does not have control. You should review the section headed "Risk factors" in the prospectus for a discussion of important factors that could cause our actual results to differ materially from the results described in or implied by the forward-looking statements.*

### OVERVIEW

Founded in 1986, we are an established eyewear manufacturer in the PRC and Hong Kong that produce and sell a wide range of spectacle frames and sunglasses mainly through ODM and OEM business models. Our integrated and customised services offering include product design and development, raw materials procurement, production, quality control, packaging and delivery.

We pride ourselves on the broad network of renowned and trusted customers worldwide (who are primarily eyewear retailers, trading companies and licensed brand owners). We have produced quality eyewear products under our customers' designated brand names and sold the same to 36 countries during the Track Record Period, including Netherlands, Italy, United Kingdom and the United States. In particular, our sales to Europe in aggregate accounted for over 65% of our revenue for each of the years ended 31 December 2016, 2017 and 2018, respectively.

With the production facilities in our Shenzhen Production Base and Jiangxi Production Base, our Group is capable of manufacturing eyewear products of various dimensions and specifications as required by our customers. During the Track Record Period, we manufactured a diversified product portfolio of over 3,200 kinds of spectacle frames and sunglasses in aggregate.

In addition to the traditional OEM business model whereby we manufacture eyewear based on the designs and specifications provided by our customers, we differentiate ourselves from other manufacturers by also offering design-driven ODM services to our customers. With our strong experience in the eyewear industry and our extensive sales network around the globe, we mobilised our design capabilities and commenced offering our OBM products under the brand "miga" in 2016.



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## FINANCIAL INFORMATION

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### KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITIONS

The major factors affecting our business, financial condition and results of operations are set out below.

#### **Our relationship with customers and ability to maintain our level of sales**

For the years ended 31 December 2016, 2017 and 2018, revenue from our top five customers accounted for approximately 81.1%, 77.3% and 77.0% of our total revenue, respectively, while revenue from our largest customer accounted for approximately 28.0%, 27.6% and 28.7%. During the Track Record Period, we entered into framework sales and purchase agreements with our major customers, however, we did not set a minimum purchase commitment for our customers to meet, and therefore there is no commitment for our customers to purchase our products at current levels or at all in future. If (i) we fail to maintain our existing customer relationships; (ii) our customers cease to place purchase orders with us or reduce the volume of their purchase orders; or (iii) we are unable to obtain new customers, our business, results of operations and prospects may be materially and adversely affected.

#### **Our relationship with suppliers and pricing of raw materials**

The success of our business depends on our ability to obtain sufficient quantities of quality raw materials, such as acetate and metal, on commercially acceptable terms and in a timely manner. The total purchase of raw materials amounted to approximately HK\$81.6 million, HK\$96.1 million and HK\$117.8 million for the years ended 31 December 2016, 2017 and 2018. As a result, our production volume and production costs depend on our ability to source quality raw materials at competitive prices. If any of our suppliers fails to deliver the raw materials to us in accordance with our production schedule, the resulting loss of production volume may materially and adversely affect our ability to deliver products to our customers in a timely manner, or at all.

Although we have established stable business relationship with our top five suppliers/subcontractors ranging from two years to six years, we cannot assure you that our key suppliers will continue to supply raw materials to us on commercially acceptable terms or the raw materials supplied to us can meet our standards, or if our existing suppliers of raw materials are interrupted for any reason, we can identify alternative sources of quality raw materials when needed, at acceptable prices or with the required quantity and quality, or at all, which may materially and adversely affect our business, results of operations and prospect.

#### **Exposure to foreign exchange fluctuations**

Our sales are mainly denominated in the US dollars while we generally pay our suppliers in RMB. During the Track Record Period, we were mainly exposed to fluctuations in the US dollars and the RMB, and our results of operations may be materially and adversely affected by the fluctuation of exchange rate of the RMB against the US dollars.

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## FINANCIAL INFORMATION

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### Seasonality

In general, sales for our Group's products is higher in December and January, and June and July whereby the revenue of each of these months contribute over 10% of the revenue in the respective year. Our Directors believe it is due to the peak season for eyewear product sales driven by higher consumer spending during festive seasons and summer seasonal sales in Europe generally. Accordingly, comparison of sales and operating results from different periods in any given financial year may not be relied upon as indicators of our performance.

### BASIS OF PRESENTATION

Prior to the incorporation of the Company and the completion of the Reorganisation as more fully explained in the paragraph headed "Statutory and General Information – A. Further Information about our Company – 5. Corporate Reorganisation" of Appendix V to this prospectus, the manufacturing and sales of eyewear products (the "**Listing Business**") was carried out by companies now comprising our Group (collectively the "**Operating Companies**"). The Operating Companies were collectively controlled by the Controlling Shareholders throughout the Track Record Period.

Pursuant to the Reorganisation, the Operating Companies together with the Listing Business are transferred to and held by the Company through Fame Investment. The Company has not been involved in any other business prior to the Reorganisation and does not meet the definition of a business. The Reorganisation is merely a reorganisation of the Listing Business and does not result in any change of business substance. Accordingly, the consolidated financial information of the companies now comprising our Group is presented using the carrying values of the Listing Business for all periods presented.

### CRITICAL ACCOUNTING POLICIES AND ESTIMATES

We have identified certain accounting policies that are significant to the preparation of our consolidated financial statements. Our significant accounting policies, judgments and estimates that are important for you to understand our financial condition and results of operations, are set forth in detail in Note 4 and Note 5 of Appendix I to this prospectus respectively. Some of our accounting policies involve subjective assumptions and estimates, as well as complex judgments relating to accounting items. Our estimates are based on historical experience, latest information and other assumptions that we believe to be reasonable under the circumstances. Actual results may differ under different assumptions and conditions. We believe the following accounting policies, estimates and judgments are of critical importance to us in the preparation of our combined financial statements.

#### Basis of consolidation

Our historical financial information incorporates the financial statements of our Company and our subsidiaries. Consolidation of a subsidiary begins when we obtain control over the subsidiary and ceases when we lose control of the subsidiary. All intra-group transactions, balances and unrealised profits are eliminated. Non-controlling interests are presented in the consolidated statement of financial position and consolidated statement of changes in equity within equity.

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## FINANCIAL INFORMATION

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### Revenue recognition

Revenue is measured based on the consideration specified in a contract with a customer. We recognise revenue when a good or service is transferred to the customer, i.e. when the customer obtains control of the asset. Our Group had adopted HKFRS 15 on a consistent basis throughout the Track Record Period and the adoption of HKFRS 15 has no significant impact on the Group's financial position and performance when comparing to that of HKAS 18.

### Property, plant and equipment

Property, plant and equipment including buildings and leasehold land (classified as finance leases) held for use in the production or supply of goods or services, or for administrative purpose, are stated in the consolidated statements of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation of property, plant and equipment is calculated at rates sufficient to write off their cost less their residual values over the estimated useful lives on a straight-line basis. The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at the end of each reporting period.

### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average basis. The cost of finished goods and work in progress comprises raw materials, direct labour and an appropriate proportion of all production overhead expenditure, and where appropriate, subcontracting charges. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

### KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of our Group's accounting policies, which are described in Note 4 in the Accountants' Report of our Company set out in Appendix I, our Directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated 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.

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## FINANCIAL INFORMATION

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### **Property, plant and equipment and depreciation**

Our Group's management determines the estimated useful lives, residual values and related depreciation charges over its property, plant and equipment based on the historical experience of the actual useful lives of items of property, plant and equipment of similar nature and functions. Our management will revise the depreciation charge where useful lives and residual values are different to those previously estimated, or we will write-off or write-down technically obsolete or non-strategic assets that have been abandoned.

### **Write-down of inventories**

Our management reviews the condition of inventories of our Group and makes provision against obsolete and slow-moving inventory items which are identified as no longer suitable for sale or use. Our management estimates the net realisable value for such inventories based primarily on the latest invoice price and current market conditions. Our Group carries out an inventory review at the end of each reporting period and makes provision against obsolete and slow-moving items. Our management reassesses the estimation at the end of each reporting period.

The identification of obsolete and slow-moving inventory items requires the use of judgements and estimates. Where the expectation is different from the original estimate, such difference will impact on the carrying values of inventories and the write-down of inventories recognised in the periods in which such estimates have been changed. The carrying amount of inventories carried as assets in the consolidated statements of financial position are set out in Note 20 in the Accountants' Report of our Company set out in Appendix I.

### **Allowance loss for doubtful debts**

Prior to 1 January 2018, allowance for doubtful debts are recognised against trade receivables based on estimated irrecoverable amounts, determined by reference to individual customer's credit quality as under HKAS 39. In determining the recoverability of trade receivables, our Group considers any change in the credit quality of the trade receivables from the initial recognition date to the end of each reporting period. In the opinion of management of our Group, except for the amount of approximately HK\$421,000 was impaired during the year ended 31 December 2017, the remaining trade receivables at the end of each reporting period are of good credit quality considering the high credibility of these customers, good track record with our Group and subsequent settlement, the management believes that no further impairment allowance is necessary in respect of the unsettled balances.

Starting from 1 January 2018, our Group applied the simplified approach to provide for expected credit loss prescribed by HKFRS 9. The adoption of HKFRS 9 does not have a significant impact to the classification and measurement of financial assets of our Group, and our Group has not recognised additional impairment allowance upon the initial recognition of HKFRS 9 on 1 January 2018. The impairment methodology is set out in Note 4 of the Accountants' Report set out in Appendix I to this prospectus.

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## FINANCIAL INFORMATION

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### RESULTS OF OPERATIONS

The table below sets out our Group's consolidated statements of profit or loss and other comprehensive income for the years ended 31 December 2016, 2017 and 2018. This information is derived and should be read in conjunction with the consolidated financial information contained in the Accountants' Report set forth in Appendix I to this prospectus.

	<b>For the year ended 31 December</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Revenue</b>	317,996	362,775	421,094
Cost of sales	(230,806)	(268,870)	(324,412)
<b>Gross profit</b>	87,190	93,905	96,682
Other income	1,733	2,666	2,876
Other gains and losses	5,028	(972)	3,963
Selling and distribution expenses	(12,149)	(15,637)	(16,601)
Administrative and other operating expenses	(27,085)	(38,114)	(46,532)
<b>Profit from operations</b>	54,717	41,848	40,388
Finance costs, net	(565)	(940)	(2,022)
<b>Profit before tax</b>	54,152	40,908	38,366
Income tax expenses	(9,363)	(8,021)	(7,341)
<b>Profit for the year</b>	<b>44,789</b>	<b>32,887</b>	<b>31,025</b>
<b>Other comprehensive income</b>			
Exchange differences on translating foreign operations	(2,947)	4,923	(4,387)
<b>Total comprehensive income for the year</b>	<b>41,842</b>	<b>37,810</b>	<b>26,638</b>
<b>Profit for the year attributable to owners of the Company</b>	<b>44,195</b>	<b>32,331</b>	<b>30,420</b>
<b>Total comprehensive income for the year attributable to owner of the Company</b>	<b>41,248</b>	<b>37,254</b>	<b>26,033</b>

## FINANCIAL INFORMATION

### DESCRIPTION OF SELECTED ITEMS IN CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

#### Revenue

During the Track Record Period, our Group's revenue was principally derived from sale of spectacle frames and sunglasses, which are primarily made of either acetate or metal. Our products are manufactured either on an OEM, ODM or OBM basis. We sell our products to, among others, Europe and the United States to our customers including eyewear retailers, trading companies and licensed brand owners. For the years ended 31 December 2016, 2017 and 2018, our revenue generated amounted to approximately HK\$318.0 million, HK\$362.8 million and HK\$421.1 million, respectively.

#### *Breakdown of revenue and contribution to our total revenue by types of products*

The table below sets forth the breakdown of our revenue and percentage contribution to our total revenue by types of products for the periods indicated:

	For the year ended 31 December					
	2016		2017		2018	
	HK\$'000	(%)	HK\$'000	(%)	HK\$'000	(%)
<b>Spectacle frames</b>						
Acetate	150,622	47.4	169,101	46.7	180,743	42.9
Metal	135,911	42.7	119,792	33.0	160,760	38.2
<b>Sub-total</b>	<b>286,533</b>	<b>90.1</b>	<b>288,893</b>	<b>79.7</b>	<b>341,503</b>	<b>81.1</b>
<b>Sunglasses</b>						
Acetate	19,733	6.2	36,453	10.0	32,797	7.8
Metal	10,023	3.2	34,768	9.6	44,957	10.7
<b>Sub-total</b>	<b>29,756</b>	<b>9.4</b>	<b>71,221</b>	<b>19.6</b>	<b>77,754</b>	<b>18.5</b>
<b>Spare parts (Note)</b>	<b>1,707</b>	<b>0.5</b>	<b>2,661</b>	<b>0.7</b>	<b>1,837</b>	<b>0.4</b>
<b>Total</b>	<b>317,996</b>	<b>100.0</b>	<b>362,775</b>	<b>100.0</b>	<b>421,094</b>	<b>100.0</b>

*Note:* Spare parts mainly included temples and sunglasses lens.

## FINANCIAL INFORMATION

The table below sets for the breakdown of average selling price and sales volume by types of product for the periods indicated:

	For the year ended 31 December					
	2016		2017		2018	
	Average selling price	Sales volume Units	Average selling price	Sales volume Units	Average selling price	Sales volume Units
	HK\$	'000	HK\$	'000	HK\$	'000
<b>Spectacle frames</b>						
Acetate	90.9	1,656	87.4	1,935	82.4	2,193
Metal	81.9	1,659	82.6	1,451	69.4	2,317
		<u>3,315</u>		<u>3,386</u>		<u>4,510</u>
<b>Sunglasses</b>						
Acetate	97.3	203	107.8	339	102.8	319
Metal	121.5	82	99.5	349	97.7	460
		<u>285</u>		<u>688</u>		<u>779</u>
<b>Spare parts (Note)</b>	15.9	<u>108</u>	16.2	<u>164</u>	14.0	<u>131</u>

*Note:* Spare parts included temples and sunglasses lens.

For the years ended 31 December 2016, 2017 and 2018, (i) sales of spectacle frames remained the largest contributor to our revenue and accounted for approximately 90.1%, 79.7% and 81.1% of our total revenue, respectively; and (ii) sales of sunglasses were the second largest contributor to our revenue and accounted for approximately 9.4%, 19.6% and 18.5% of our total revenue, respectively.

### *Spectacle frames*

#### *(i) Sales volume*

Our sales volume of spectacle frames increased by approximately 2.1% from approximately 3.3 million units for the year ended 31 December 2016 to approximately 3.4 million units for the year ended 31 December 2017, which was primarily due to the increase of the sales volume of acetate spectacle frames of approximately 279,000 units mainly attributable to the increase in demand from Marcolin; and Customer C primarily due to the increase of models sourced from our Group.

Our sales volume of spectacle frames increased by approximately 33.2% from approximately 3.4 million units for the year ended 31 December 2017 to approximately 4.5 million units for the year ended 31 December 2018, which was primarily due to the increase of sales volume of metal spectacle frames of approximately 866,000 units and acetate spectacle frames of approximately 258,000 units mainly attributable to the increase in demand from Customer B primarily due to the increase of models sourced from our Group.

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## FINANCIAL INFORMATION

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*(ii) Average selling price*

The average selling price of acetate spectacle frames was approximately HK\$90.9 and HK\$87.4 for the years ended 31 December 2016 and 2017, respectively, which remained relatively stable. The average selling price of acetate spectacle frames decreased from approximately HK\$87.4 for the year ended 31 December 2017 to approximately HK\$82.4 for the year ended 31 December 2018, which was primarily due to the increase in sales volume to Customer B, which had a relatively lower average selling price than other customers. The products sold to Customer B had a relatively lower average selling price mainly because our Group offered competitive price to capture sales orders from Customer B.

The average selling price of metal spectacle frames was approximately HK\$81.9 and HK\$82.6 for the years ended 31 December 2016 and 2017, respectively, and remained relatively stable. The average selling price of metal spectacles frames decreased from approximately HK\$82.6 for the year ended 31 December 2017 to approximately HK\$69.4 for the year ended 31 December 2018, which was primarily due to the increase in sales volume to Customer B, which had a relatively lower average selling price than other customers. The products sold to Customer B had a relatively lower average selling price mainly because our Group offered competitive price to capture the sales orders from Customer B.

*Sunglasses*

*(i) Sales volume*

Our sales volume of sunglasses increased by approximately 141.4% from approximately 285,000 units for the year ended 31 December 2016 to approximately 688,000 units for the year ended 31 December 2017, which was primarily due to the increase of sales volume of acetate sunglasses of approximately 136,000 units and metal sunglasses of approximately 267,000 units mainly attributable to the increased demand from (i) Customer A which consolidated the number of its suppliers to a limited number; (ii) Customer D which was a new customer in 2017; and (iii) Marcolin primarily due to the increase of models sourced from our Group.

Our sales volume of sunglasses increased by approximately 13.2% from approximately 688,000 units for the year ended 31 December 2017 to approximately 779,000 units for the year ended 31 December 2018, which was primarily due to the increase of sales volume of metal sunglasses of approximately 111,000 units mainly attributable to the increase in demand from Customer B and Marcolin primarily due to the increase of models sourced from our Group; and partially offset by the general decrease of sales volume of acetate sunglasses from Customer A, which underwent reducing inventory management.

*(ii) Average selling price*

The average selling price of acetate sunglasses increased from approximately HK\$97.3 for the year ended 31 December 2016 to approximately HK\$107.8 for the year ended 31 December 2017, which was mainly attributable to the increase in demand from (i) Customer A which consolidated the number of its suppliers to a limited number; and (ii) Marcolin primarily due to the increase of models sourced from our Group. The average selling price of acetate sunglasses decreased from approximately HK\$107.8 for the year ended 31 December 2017 to approximately HK\$102.8 for the year ended 31 December 2018, which was primarily due to the general decrease in sales volume and the change of products mix from Customer A.



## FINANCIAL INFORMATION

The average selling price of metal sunglasses decreased from approximately HK\$121.5 for the year ended 31 December 2016 to approximately HK\$99.5 for the year ended 31 December 2017, which was primarily due to the increase in sales volume to Customer D, which had relatively lower average selling prices than other customers, for the year ended 31 December 2017. The products sold to Customer D had relatively lower average selling prices mainly because the company offered competitive price to capture sales orders from Customer D. The average selling price of metal sunglasses for the years ended 31 December 2017 and 2018 were approximately HK\$99.5 and HK\$97.7, respectively, which remained stable.

The following table sets out a breakdown of the revenue generated from the sale of our products by mode of operation for the Track Record Period:

	For the year ended 31 December					
	2016		2017		2018	
	HK\$'000	(%)	HK\$'000	(%)	HK\$'000	(%)
ODM	184,667	58.1	188,896	52.0	212,187	50.4
OEM	132,674	41.7	173,685	47.9	208,222	49.4
OBM	655	0.2	194	0.1	685	0.2
<b>Total</b>	<b>317,996</b>	<b>100.0</b>	<b>362,775</b>	<b>100.0</b>	<b>421,094</b>	<b>100.0</b>

Leveraging on our design capability, our Group commenced the design, manufacturing and sales of our OBM products in 2016 under our own brand name “miga”, and the revenue generated from our OBM products was approximately HK\$655,000, HK\$194,000 and HK\$685,000 for the years ended 31 December 2016, 2017 and 2018. On the other hand, the ODM and OEM business were our major focus and recorded an increase in revenue during the Track Record Period.

### ***Breakdown of revenue by geographical location***

During the Track Record Period, we generated over 65% of our revenue from customers in Europe and sold our products to 36 countries. The table below sets forth a breakdown of our revenue as derived from the sales of our products by geographical location based on location of delivery to customers and as a percentage of our revenue during the Track Record Period:

	For the year ended 31 December					
	2016		2017		2018	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Key European Countries <sup>(Note 1)</sup>	228,099	71.8	262,413	72.3	292,020	69.3
Hong Kong	35,769	11.2	38,357	10.6	41,246	9.8
United States	21,963	6.9	17,916	4.9	20,577	4.9
Others <sup>(Note 2)</sup>	32,165	10.1	44,089	12.2	67,251	16.0
	<b>317,996</b>	<b>100.0</b>	<b>362,775</b>	<b>100.0</b>	<b>421,094</b>	<b>100.0</b>

## FINANCIAL INFORMATION

*Notes:*

1. Key European Countries include Netherlands, Italy, United Kingdom, France and Hungary.
2. Others include, without limitation, the PRC, Japan, South Korea, India, Canada, Spain, Germany, Australia, Argentina, Brazil, Mexico, South Africa and United Arab Emirates.

### Cost of sales

Our cost of sales mainly consists of (i) direct materials; (ii) direct labour; and (iii) subcontracting costs.

The table below sets forth a breakdown of our cost of sales for the periods indicated:

	For the year ended 31 December					
	2016		2017		2018	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Direct materials	80,630	34.9	92,045	34.2	114,340	35.3
Direct labour	39,489	17.2	53,078	19.7	67,701	20.9
Subcontracting costs <sup>(1)</sup>						
– Processing fees	88,504	38.3	90,152	33.5	97,019	29.9
– Electroplating fees	10,318	4.5	12,326	4.6	17,953	5.5
Depreciation	2,832	1.2	7,015	2.6	8,036	2.5
Manufacturing overhead <sup>(2)</sup>	4,445	1.9	6,954	2.6	9,819	3.0
Consumables <sup>(3)</sup>	4,588	2.0	7,300	2.8	9,544	2.9
<b>Total</b>	<b>230,806</b>	<b>100.0</b>	<b>268,870</b>	<b>100.0</b>	<b>324,412</b>	<b>100.0</b>

*Notes:*

1. Subcontracting costs mainly included processing fees and electroplating fees.
2. Manufacturing overhead included rental expenses and utilities.
3. Consumables mainly included packaging materials, glues, engine oil and polishing material.

During the Track Record Period, subcontracting costs were the largest proportion of cost of sales accounting for approximately 42.8%, 38.1% and 35.4% of our total cost of sales for the same period. We outsource part/entire production process to subcontractors as we do not possess the necessary facilities to conduct the electroplating process, and to increase the flexibility in our production. The proportion of subcontracting costs to our total cost of sales decreased from approximately 42.8% for the year ended 31 December 2016 to approximately 38.1% for the year ended 31 December 2017 and further decreased to approximately 35.4% for the year ended 31 December 2018 which was primarily due to the increase in estimated production capacity.

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## FINANCIAL INFORMATION

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The table below sets forth the sensitivity analysis on the impact of hypothetical changes in the cost of direct materials and direct labour on our profit before tax for the periods indicated:

		For the year ended 31 December		
		2016	2017	2018
		Decrease/ increase in profit before tax (HK\$'000)	Decrease/ increase in profit before tax (HK\$'000)	Decrease/ increase in profit before tax (HK\$'000)
Cost of direct materials	+/-5%	-/+4,032	-/+4,602	-/+5,717
	+/-10%	-/+8,063	-/+9,205	-/+11,434
Direct labour	+/-5%	-/+1,974	-/+2,654	-/+3,385
	+/-10%	-/+3,949	-/+5,308	-/+6,770
Subcontracting costs	+/-5%	-/+4,941	-/+5,124	-/+5,749
	+/-10%	-/+9,882	-/+10,248	-/+11,497

### Gross profit and gross profit margin

Our gross profit represents our revenue less our cost of sales and our gross profit margin represented our gross profit divided by our revenue, multiplied by 100%. For the years ended 31 December 2016, 2017 and 2018, our gross profit amounted to approximately HK\$87.2 million, HK\$93.9 million and HK\$96.7 million, respectively, and our gross profit margin of approximately 27.4%, 25.9% and 23.0%, respectively.

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## FINANCIAL INFORMATION

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The following table sets forth the gross profit and gross profit margin by types of product for the periods indicated:

	For the year ended 31 December					
	2016		2017		2018	
	<i>HK\$'000</i>	<i>Gross profit margin (%)</i>	<i>HK\$'000</i>	<i>Gross profit margin (%)</i>	<i>HK\$'000</i>	<i>Gross profit margin (%)</i>
<b>Spectacle frames</b>						
Acetate	43,184	28.7	46,933	27.8	43,424	24.0
Metal	37,565	27.6	30,981	25.9	37,708	23.5
Sub-total	80,749	28.2	77,914	27.0	81,132	23.8
<b>Sunglasses</b>						
Acetate	4,245	21.5	8,894	24.4	7,213	22.0
Metal	2,028	20.2	6,592	19.0	8,596	19.1
Sub-total	6,273	21.1	15,486	21.7	15,809	20.3
<b>Spare parts</b>	168	9.8	505	19.0	(259)	(14.1)
<b>Total</b>	<b>87,190</b>	<b>27.4</b>	<b>93,905</b>	<b>25.9</b>	<b>96,682</b>	<b>23.0</b>

The majority of our gross profit came from spectacle frames, which represented approximately 92.6%, 83.0% and 83.9% of our gross profit for the years ended 31 December 2016, 2017 and 2018, respectively.

### *Spectacle frames*

#### *(i) Gross profit*

Our gross profit from the sales of acetate spectacle frames increased by approximately 8.7% from approximately HK\$43.2 million for the year ended 31 December 2016 to approximately HK\$46.9 million for the year ended 31 December 2017, which was generally in line with the increase in sales from acetate spectacle frames. Our gross profit from the sales of acetate spectacle frames decreased by approximately 7.5% from approximately HK\$46.9 million for the year ended 31 December 2017 to approximately HK\$43.4 million for the year ended 31 December 2018, which was primarily due to the decrease in average selling price.

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## FINANCIAL INFORMATION

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Our gross profit from the sales of metal spectacle frames decreased by approximately 17.5% from approximately HK\$37.6 million for the year ended 31 December 2016 to approximately HK\$31.0 million for the year ended 31 December 2017, which was primarily due to the decrease in sales volume. Our gross profit from the sales of metal spectacle frames increased by approximately 21.7% from approximately HK\$31.0 million for the year ended 31 December 2017 to approximately HK\$37.7 million for the year ended 31 December 2018, which was primarily due to the increase in sales volume.

*(ii) Gross profit margin*

Our gross profit margin from the sales of acetate spectacle frames remained relatively stable for the years ended 31 December 2016 and 2017. Our gross profit margin from the sales of acetate spectacle frames decreased from approximately 27.8% for the year ended 31 December 2017 to approximately 24.0% for the year ended 31 December 2018 mainly due to the decrease in average selling price.

Our gross profit margin from the sales of metal spectacle frames decreased from approximately 27.6% for the year ended 31 December 2016 to approximately 25.9% for the year ended 31 December 2017 was mainly because the decrease in sales volume and sales volume per model. Our gross profit margin from the sales of metal spectacle frames decreased from approximately 25.9% for the year ended 31 December 2017 to approximately 23.5% for the year ended 31 December 2018 was mainly because our Group offered competitive price to capture the sales orders.

*Sunglasses*

*(i) Gross profit*

Our gross profit from the sales of acetate sunglasses increased by approximately 109.5% from approximately HK\$4.2 million for the year ended 31 December 2016 to approximately HK\$8.9 million for the year ended 31 December 2017, which was primarily due to the increase in the gross profit generated from sales to Customer A as a result of the increase in average selling price and the increase in sales volume that our Group benefited from the consolidation of Customer A's suppliers. Our gross profit from the sales of acetate sunglasses decreased by approximately 18.9% from approximately HK\$8.9 million for the year ended 31 December 2017 to approximately HK\$7.2 million for the year ended 31 December 2018 mainly due to the decrease in average selling price.

Our gross profit from the sales of metal sunglasses increased by approximately 225.0% from approximately HK\$2.0 million for the year ended 31 December 2016 to approximately HK\$6.6 million for the year ended 31 December 2017, which was primarily due to the increase in gross profit from Customer A as a result of the increase in sales volume and increase in average selling price that our Group benefited from the consolidation of Customer A's suppliers. Our gross profit from the sales of metal sunglasses increased by approximately 30.4% from approximately HK\$6.6 million for the year ended 31 December 2017 to approximately HK\$8.6 million for the year ended 31 December 2018, which was primarily due to the increase in sales volume.

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## FINANCIAL INFORMATION

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(ii) *Gross profit margin*

Our gross profit margin from the sales of acetate sunglasses increased from 21.5% for the year ended 31 December 2016 to approximately 24.4% for the year ended 31 December 2017, which was primarily due to increase in average selling price. Our gross profit margin from the sales of acetate sunglasses decreased from approximately 24.4% for the year ended 31 December 2017 to approximately 22.0% for the year ended 31 December 2018, which was primarily due to the decrease in average selling price.

Our gross profit margin from sales of metal sunglasses decreased from approximately 20.2% for the year ended 31 December 2016 to approximately 19.0% for the year ended 31 December 2017, which was primarily because the increase in sales volume to Customer D, which was a new customer in 2017 and offered competitive price to capture sales orders from Customer D. Our gross profit margin from the sales of metal sunglasses for the years ended 31 December 2017 and 2018 were approximately 19.0% and 19.1% respectively, which remained relatively stable.

The following table sets forth the gross profit and gross profit margin by mode of operations for the periods indicated:

	For the year ended 31 December					
	2016		2017		2018	
	<i>Gross profit</i> <i>HK\$'000</i>	<i>margin (%)</i>	<i>Gross profit</i> <i>HK\$'000</i>	<i>margin (%)</i>	<i>Gross profit</i> <i>HK\$'000</i>	<i>margin (%)</i>
ODM	55,366	30.0	52,291	27.7	55,024	25.9
OEM	31,630	23.8	41,565	23.9	41,193	19.8
OBM	194	29.6	49	25.3	465	67.9
<b>Total</b>	<b>87,190</b>	<b>27.4</b>	<b>93,905</b>	<b>25.9</b>	<b>96,682</b>	<b>23.0</b>

Our gross profit from the sales of ODM products was the largest contributor to our gross profit and had a higher gross profit margin than the sales of OEM products for the years ended 31 December 2016, 2017 and 2018. ODM products had a higher gross profit margin than OEM products which was primarily due to (i) a higher batch quantity of ODM products per order; (ii) and our Group was responsible for designing and manufacturing of ODM products which our Group was only responsible for manufacturing of OEM products.

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## FINANCIAL INFORMATION

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### *ODM*

Our gross profit from the sales of ODM products decreased from approximately HK\$55.4 million for the year ended 31 December 2016 to approximately HK\$52.3 million for the year ended 31 December 2017 mainly because our Group offered competitive price to capture the sales orders. Our gross profit from the sales of ODM products increased from approximately HK\$52.3 million for the year ended 31 December 2017 to approximately HK\$55.0 million for the year ended 31 December 2018 which was due to the increase in sales of ODM products.

Our gross profit margin from the sales of ODM products decreased from approximately 30.0% for the year ended 31 December 2016 to approximately 27.7% for the year ended 31 December 2017 mainly because our Group offered competitive price to capture the sales orders. Our gross profit margin from the sales of ODM products decreased from approximately 27.7% for the year ended 31 December 2017 to approximately 25.9% for the year ended 31 December 2018 because our Group offered competitive price to capture the sales orders.

### *OEM*

Our gross profit from the sales of OEM products increased from approximately HK\$31.6 million for the year ended 31 December 2016 to approximately HK\$41.6 million for the year ended 31 December 2017 that was generally in line with the increase in sales of OEM products. Our gross profit from the sales of OEM products decreased slightly from approximately HK\$41.6 million for the year ended 31 December 2017 to approximately HK\$41.2 million for the year ended 31 December 2018 mainly because the increase in producing new models that have a small volume at the initial stage.

Our gross profit margin from the sales of OEM products remained relatively stable for the years ended 31 December 2016 and 2017. Our gross profit margin from the sales of OEM products decreased from approximately 23.9% for the year ended 31 December 2017 to approximately 19.8% for the year ended 31 December 2018 mainly because the increase in producing new models that have a small volume at the initial stage.

### **Other income**

Our other income consists mainly (i) government grants; (ii) income from sales of scrap; and (iii) product services fee income. Our other income were approximately HK\$1.7 million, HK\$2.7 million and HK\$2.9 million for the years ended 31 December 2016, 2017 and 2018, respectively. The government grants were subsidies received from Yujiang District People's Government in respect of our Group's engagement in the eyewear manufacturing industry in Yingtian, Jiangxi province, the PRC. The product services fee income primarily represented the value added service including (i) follow-up of orders; (ii) monitoring compliance with deadline for production of goods; and (iii) inventory and quality control.

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The table below sets forth a breakdown of our other income for the periods indicated:

	For the year ended 31 December		
	2016	2017	2018
	HK\$'000	HK\$'000	HK\$'000
Product services fee income	1,392	1,492	1,886
Government grants	50	544	408
Income from sales of scrap	185	318	81
Sub-rental income from a related company	12	–	–
Others	94	312	501
<b>Total</b>	<b>1,733</b>	<b>2,666</b>	<b>2,876</b>

### Other gains and losses

Our other gains and losses consists mainly net exchange gain or loss, reversal of fair value loss on derivative financial instruments, net losses/gain on disposal of property, plant and equipment, and realised loss on disposal of derivative financial instruments. The table below sets forth a breakdown of our other gains and losses for the periods indicated:

	For the year ended 31 December		
	2016	2017	2018
	HK\$'000	HK\$'000	HK\$'000
Exchange gain/(loss), net	3,219	(686)	4,665
Reversal of fair value loss on derivative financial instruments	5,375	–	–
Net gain/(losses) on disposal of property, plant and equipment	110	(256)	(702)
Property, plant and equipment write-off	–	(30)	–
Realised loss on disposal of derivative financial instruments	(3,676)	–	–
<b>Total</b>	<b>5,028</b>	<b>(972)</b>	<b>3,963</b>

The net exchange gains for the years ended 31 December 2016 and 2018 primarily arose from the effect of general depreciation of RMB against USD that our Group, in general, received USD from customers and settled the payment of suppliers and subcontractors in RMB, and the net exchange loss for the year ended 31 December 2017 was primarily due to the effect of general depreciation of USD against RMB. The nature of the reversal of fair value loss on derivative financial instruments and the realised loss of derivative financial instruments was derived from the two foreign exchange forward contracts entered prior to the Track Record Period. Please refer to the paragraph headed “Discussion of Selected Items from the Consolidated Statement of Financial Position – Derivative financial instruments” in this section.



## FINANCIAL INFORMATION

Our Group has certain exposure to foreign currency risk as most of our business transactions, assets and liabilities are principally denominated in HKD, RMB and USD. We currently do not have any foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. We monitor our foreign currency exposure closely and as at the Latest Practicable Date, we do not have any intention to enter into any derivative financial instruments in future.

### Selling and distribution expenses

Our selling and distribution expenses principally comprise design and development fees, sampling expenses and freight and transportation expenses. For the years ended 31 December 2016, 2017 and 2018, our selling and distribution expenses was approximately HK\$12.1 million, HK\$15.6 million and HK\$16.6 million, respectively. The table below sets forth a breakdown of our selling and distribution expenses for the periods indicated:

	For the year ended 31 December					
	2016		2017		2018	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Design and development fees <sup>(1)</sup>	3,290	27.1	4,762	30.5	5,342	32.1
Sampling expenses	4,080	33.6	4,439	28.4	5,250	31.6
Freight and transportation expenses	1,690	13.9	2,293	14.7	2,296	13.8
Custom and insurance	1,098	9.0	1,443	9.2	1,669	10.1
Travelling expenses	717	5.9	1,316	8.4	1,536	9.3
Advertising & promotion	1,274	10.5	1,194	7.6	496	3.0
Others	—	—	190	1.2	12	0.1
<b>Total:</b>	<b>12,149</b>	<b>100.0</b>	<b>15,637</b>	<b>100.0</b>	<b>16,601</b>	<b>100.0</b>

*Note:*

- <sup>(1)</sup> includes (i) design fee to external design houses and part-time designers; (ii) consultancy fees to our consultants; and (iii) design and development related disbursements.

## FINANCIAL INFORMATION

### Administrative and other operating expenses

Our administrative expenses primarily consist of (i) staff salaries and welfare paid to management and staff other than production staff; (ii) office supplies; (iii) travel and entertainment expenses; (iv) rent of premises and utility expenses; and (v) legal and professional fees. For the years ended 31 December 2016, 2017 and 2018, our administrative and other operating expenses was approximately HK\$27.1 million, HK\$38.1 million and HK\$46.5 million, respectively, representing approximately 8.5%, 10.5% and 11.1% of our total revenue of the corresponding period, respectively. The following table sets forth a breakdown of our administrative and other operating expenses for the periods indicated:

	For the year ended 31 December					
	2016		2017		2018	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Staff salaries and welfare	17,913	66.1	21,650	56.8	24,798	53.3
Office supplies	1,503	5.5	3,806	10.0	3,408	7.3
Travel and entertainment expenses	1,645	6.1	2,055	5.4	1,958	4.2
Rent of premises and utility expenses	1,415	5.2	1,532	4.0	1,450	3.1
Legal and professional fees	909	3.4	1,690	4.4	2,650	5.7
Depreciation	1,075	4.0	1,038	2.7	1,601	3.5
Allowance for doubtful debts	–	–	421	1.1	–	–
Bank charges	257	0.9	316	0.8	394	0.8
Listing expenses	–	–	3,209	8.4	7,120	15.3
Others	2,368	8.8	2,397	6.4	3,153	6.8
<b>Total:</b>	<b>27,085</b>	<b>100.0</b>	<b>38,114</b>	<b>100.0</b>	<b>46,532</b>	<b>100.0</b>

### Finance costs, net

Finance income represents bank interest income and interest income from Southern China, which engages in property holding. In 2010, Mr. Joe Kwok and Mrs. Kwok held 1 share and 999,999 shares in Southern China, respectively. In the same year, Southern China acquired two properties in the New Territories, Hong Kong. As a financing arrangement between Southern China and Kelfred, which were then private companies, it was agreed that Kelfred shall lend approximately HK\$15.7 million to Southern China. The interest income from Southern China was derived at floating interest rates mutually agreed between relevant parties that Kelfred lent approximately HK\$15.7 million to Southern China for acquiring two properties in 2010 and the property was pledged for Kelfred to secure the banking facilities. There was no fixed term of repayment, and the loan was unsecured and non-trade in nature. Taking into account the advice from our Legal Counsel, our Directors are of the view that the loan provided by Kelfred (as lender) and Southern China (as borrower) complies with the relevant laws and regulations in Hong Kong. The amounts due from Southern China was fully settled during the year ended 31 December 2018. Finance expenses represent interest on bank borrowings, finance lease charges and interest on factoring of trade receivables. For the years ended 31 December 2016, 2017 and 2018, our net finance costs was approximately HK\$0.6 million, HK\$0.9 million and HK\$2.0 million, respectively.

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## FINANCIAL INFORMATION

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Please also refer to note 11 to our consolidated financial statements included in the Accountants' Report in Appendix I to this prospectus for further information.

### **Income tax expenses**

Income tax expense represents our total current and deferred tax expenses under the relevant Hong Kong and the PRC income tax rules and regulations. For the years ended 31 December 2016, 2017 and 2018, our income tax expenses were approximately HK\$9.4 million, HK\$8.0 million and HK\$7.3 million, respectively. Our subsidiaries incorporated in Hong Kong were subject to a profit tax at the rate of 16.5% for the two years ended 31 December 2017. The two-tiered profits tax rate introduced under the Inland Revenue (Amendment) (No. 7) Bill 2017 was applied to Kelfred for its annual reporting periods ending on or after 1 January 2018.

Our PRC subsidiaries were subject to the statutory enterprise income tax ("EIT") rate of 25% in accordance with the EIT Law during the Track Record Period. Preferential tax treatment is available to Ying Tan, which was qualified as a small and low-profit enterprise for the years ended 31 December 2017 and 2018 was subject to income tax at a preferential tax rate of 20%. Besides, pursuant to Caishui [2017] No. 43, Ying Tan was entitled to a further deduction of 50% of the tax income for the years ended 31 December 2017 and 2018.

We did not have any assessable income in Cayman Islands and British Virgin Islands during the Track Record Period.

Please also refer to note 12 to our consolidated financial statements included in the Accountants' Report in Appendix I to this prospectus for further information.

### **Effective Tax Rate**

Our effective tax rate, representing income tax expenses divided by profit before tax, was approximately 17.3%, 19.6% and 19.1% for the years ended 31 December 2016, 2017 and 2018, respectively. During the Track Record Period and up to the Latest Practicable Date, we paid all relevant taxes applicable to us and had no disputes or unresolved tax issues with relevant tax authorities.

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## FINANCIAL INFORMATION

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### YEAR TO YEAR COMPARISON OF RESULTS OF OPERATIONS

*Year ended 31 December 2018 compared to year ended 31 December 2017*

#### **Revenue**

The overall revenue of our Group increased by approximately HK\$58.3 million or 16.1% from approximately HK\$362.8 million for the year ended 31 December 2017 to approximately HK\$421.1 million for the year ended 31 December 2018. The increase in revenue was mainly attributable to the increase in sales volume of spectacle frames and sunglasses. Please refer to the paragraph headed “Description of selected items in consolidated statements of profit or loss - Breakdown of revenue and contribution to our total revenue by types of products” in this section for a discussion of change in the amount of our revenue during the Track Record Period.

#### **Cost of sales**

Our cost of sales increased by approximately HK\$55.5 million or 20.7% from approximately HK\$268.9 million for the year ended 31 December 2017 to approximately HK\$324.4 million for the year ended 31 December 2018. Such increase was in line with the increase in our revenue by 16.1% during the same period.

#### **Gross profit and gross profit margin**

Our gross profit increased by approximately HK\$2.8 million or 3.0% from approximately HK\$93.9 million for the year ended 31 December 2017 to approximately HK\$96.7 million for the year ended 31 December 2018. The increase in our gross profit was mainly due to the increase in gross profit from spectacle frames. Please refer to the paragraph headed “Description of selected items in consolidated statements of profit or loss - Gross profit and gross profit margin” in this section for a discussion of change in the amount of our gross profit during the Track Record Period.

Our overall gross profit margin decreased from approximately 25.9% for the year ended 31 December 2017 to approximately 23.0% for the year ended 31 December 2018. The decrease in our gross profit margin was primarily due to the decrease in gross profit margin from the sales of spectacle frames. Please refer to the paragraph headed “Description of selected items in consolidated statements of profit or loss - Gross profit and gross profit margin” in this section for a discussion of change in the amount of our gross profit margin during the Track Record Period.

#### **Other income**

Our other income increased by approximately HK\$0.2 million or 7.9% from approximately HK\$2.7 million for the year ended 31 December 2017 to approximately HK\$2.9 million for the year ended 31 December 2018. Such increase was mainly attributable to increase in product services fee income of approximately HK\$0.4 million, whereby such service was performed on an on-demand basis and charged by the number of frames handled.

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## FINANCIAL INFORMATION

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### **Other gains and losses**

Our other gains and losses changed from a loss position of approximately HK\$1.0 million for the year ended 31 December 2017 to a gain position of approximately HK\$4.0 million for the year ended 31 December 2018. Such change was mainly attributable to a net exchange loss of approximately HK\$0.7 million for the year ended 31 December 2017 compared with a net exchange gain of approximately HK\$4.7 million for the year ended 31 December 2018.

### **Selling and distribution expenses**

Our selling and distribution expenses increased by approximately HK\$1.0 million or 6.2% from approximately HK\$15.6 million for the year ended 31 December 2017 to approximately HK\$16.6 million for the year ended 31 December 2018. The increase in our selling and distribution expenses was mainly attributable to an increasing in sampling expenses that was generally in line with the increase in revenue.

### **Administrative and other operating expenses**

Our administrative and other operating expenses increased by approximately HK\$8.4 million or 22.1% from approximately HK\$38.1 million for the year ended 31 December 2017 to approximately HK\$46.5 million for the year ended 31 December 2018, which was mainly attributable to (i) the listing expenses recognised; and (ii) an increase in staff salaries and welfare primarily due to the increase number of staff.

### **Finance costs, net**

Our net of finance costs increased by approximately HK\$1.1 million or 115.1% from approximately HK\$0.9 million for the year ended 31 December 2017 to approximately HK\$2.0 million for the year ended 31 December 2018, primarily due to the increase in interest on bank borrowings. The principal amounts of the bank borrowings increased from approximately HK\$24.7 million as at 31 December 2017 to approximately HK\$44.6 million as at 31 December 2018.

### **Income tax expenses**

Our income tax expenses decreased by approximately HK\$0.7 million or 8.5% from approximately HK\$8.0 million for the year ended 31 December 2017 to approximately HK\$7.3 million for the year ended 31 December 2018, primarily due to the decrease in provision of the Hong Kong profits tax that the two-tiered profits tax rate introduced under the Inland Revenue (Amendment) (No. 7) Bill 2017 was applied.

### **Profit for the year**

As a result of the foregoing, our profit for the year decreased by approximately HK\$1.9 million or 5.7% from approximately HK\$32.9 million for the year ended 31 December 2017 to approximately HK\$31.0 million for the year ended 31 December 2018.

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## FINANCIAL INFORMATION

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### *Year ended 31 December 2017 compared to year ended 31 December 2016*

#### **Revenue**

The overall revenue of our Group increased by approximately HK\$44.8 million or 14.1% from approximately HK\$318.0 million for the year ended 31 December 2016 to approximately HK\$362.8 million for the year ended 31 December 2017. The increase in revenue was mainly attributable to the increase in sales volume of spectacle frames and sunglasses. Please refer to the paragraph headed “Description of selected items in consolidated statements of profit or loss – Breakdown of revenue and contribution to our total revenue by types of products” in this section for a discussion of change in the amount of our revenue during the Track Record Period.

#### **Cost of sales**

Our cost of sales increased by approximately HK\$38.1 million or 16.5% from approximately HK\$230.8 million for the year ended 31 December 2016 to approximately HK\$268.9 million for the year ended 31 December 2017. Such increase was in line with the increase in our revenue by 14.1% during the same period.

#### **Gross profit and gross profit margin**

Our gross profit increased by approximately HK\$6.7 million or 7.7% from approximately HK\$87.2 million for the year ended 31 December 2016 to approximately HK\$93.9 million for the year ended 31 December 2017. The increase in our gross profit was mainly due to increase in gross profit from sales of sunglasses. Please refer to the paragraph headed “Description of selected items in consolidated statements of profit or loss – Gross profit and gross profit margin” in this section for a discussion of change in the amount of our gross profit during the Track Record Period.

Our overall gross profit margin decreased from approximately 27.4% for the year ended 31 December 2016 to approximately 25.9% for the year ended 31 December 2017. The decrease in our gross profit margin was primarily due to the decrease in gross profit margin from the sales of metal spectacle frames. Please refer to the paragraph headed “Description of selected items in consolidated statements of profit or loss – Gross profit and gross profit margin” in this section for a discussion of change in the amount of our gross profit margin during the Track Record Period.

#### **Other income**

Our other income increased by approximately HK\$1.0 million or 53.8% from approximately HK\$1.7 million for the year ended 31 December 2016 to approximately HK\$2.7 million for the year ended 31 December 2017. The increase in our other income was attributable to government grants received from Yujiang District government, Jiangxi province, the PRC for the year ended 31 December 2017.

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### Other gains and losses

Our other gains and losses changed from a gain position of approximately HK\$5.0 million for the year ended 31 December 2016 to a loss position of approximately HK\$0.9 million for the year ended 31 December 2017. Such change was mainly attributable to a net exchange loss of approximately HK\$0.7 million for the year ended 31 December 2017 compared with a net exchange gain of approximately HK\$3.2 million for the year ended 31 December 2016.

### Selling and distribution expenses

Our selling and distribution expenses increased by approximately HK\$3.5 million or 28.7% from approximately HK\$12.1 million for the year ended 31 December 2016 to approximately HK\$15.6 million for the year ended 31 December 2017. The increase in our selling and distribution expenses was mainly attributable to (i) an increase in design and development fees; (ii) an increase in freight and transportation expenses that was generally in line with the increase in revenue; and (iii) an increase in travelling expenses primarily due to the expansion in Jiangxi Huaqing.

### Administrative and other operating expenses

Our administrative and other operating expenses increased by approximately HK\$11.0 million or 40.7% from approximately HK\$27.1 million for the year ended 31 December 2016 to approximately HK\$38.1 million for the year ended 31 December 2017. The increase in our administrative and other operating expenses was mainly attributable to (i) the listing expenses recognised for the year ended 31 December 2017; (ii) an increase in staff salaries and welfare primarily due to the increase number of staff in Jiangxi Huaqing.

### Finance costs, net

Our net finance costs increased by approximately HK\$0.3 million or 66.4% from approximately HK\$0.6 million for the year ended 31 December 2016 to approximately HK\$0.9 million for the year ended 31 December 2017. The increase in our net finance cost was mainly due to an increase in the interest on factoring of trade receivables of approximately HK\$0.2 million, increase in interest of bank borrowings, and offset by a decrease in finance lease charges. The principal amounts of the bank borrowings increased from approximately HK\$22.9 million for the year ended 31 December 2016 to approximately HK\$24.7 million for the year ended 31 December 2017.

### Income tax expenses

Our income tax expense decreased by approximately HK\$1.4 million or 14.3% from approximately HK\$9.4 million for the year ended 31 December 2016 to approximately HK\$8.0 million for the year ended 31 December 2017. Such decrease was consistent with the decrease in profit before tax for the year ended 31 December 2017 as compared to the year ended 31 December 2016.

### Profit for the year

As a result of the foregoing, our profit for the year decreased by approximately HK\$11.9 million or 26.6% from approximately HK\$44.8 million for the year ended 31 December 2016 to approximately HK\$32.9 million for the year ended 31 December 2017.

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### LIQUIDITY AND CAPITAL RESOURCES

Historically, we have funded our operations primarily with net cash generated from our operations, proceeds from issue of shares and banking facilities. Our use of cash primarily relates to our operating activities, repayment of banking facilities and purchase of property, plant and equipment. We were able to repay our obligations when they became due. We did not experience material difficulties in obtaining our banking facilities during the Track Record Period. We regularly monitor the repayment dates of financial liabilities, including trade payables, other payables and accruals, etc to match with financial resources available to us from time to time. The purchase of property, plant and equipment was primarily attributable to the acquisition and expansion of Jiangxi Production Base. Our Group manages liquidity risk by maintaining adequate financial resources, including existing cash and bank balances, operating cash flows and banking facilities.

We currently expect that there will not be any material change in our sources of cash and use of cash, and additional funds is expected to be available from proceeds of the Share Offer for implementing our future plans as detailed in “Future Plans and Use of Proceeds” in this prospectus.

#### Cash flow

The table below sets forth the selected cash flow data from the combined statements of cash flows for the period as indicated. This information should be read together with the consolidated financial information contained in the Accountants’ Report in Appendix I to this prospectus.

	For the year ended 31 December		
	2016	2017	2018
	HK\$'000	HK\$'000	HK\$'000
Net cash generated from operating activities	53,953	28,380	12,322
Net cash used in investing activities	(46,169)	(40,256)	(37,622)
Net cash generated from financing activities	12,745	3,156	25,098
Effect of foreign exchange rate changes	(1,452)	2,200	(2,109)
Net increase/(decrease) in cash and cash equivalents	19,077	(6,520)	(2,311)
Cash and cash equivalents at beginning of the year	7,626	26,703	20,183
Cash and cash equivalents at the end of the year	26,703	20,183	17,872

#### Cash flows generated from operating activities

Our cash generated from or used in operating activities comprises profit before tax adjusted for non-cash items, such as depreciation, allowance or reversal of allowance for inventories and adjusted for the change in working capital. During the Track Record Period, our cash from operating activities was principally from profit before tax. Our cash used in operating activities was principally for purchases of inventories, increase in trade receivables and income tax paid.



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For the year ended 31 December 2016, we had net cash from operating activities of approximately HK\$54.0 million, which was primarily contributed by our profit before tax of approximately HK\$54.2 million and an increase in trade payables of approximately HK\$21.4 million. These cash inflow was offset by the increase in trade receivables of approximately HK\$21.6 million. The increase in trade payables was primarily due to our purchase of raw materials from our suppliers and our engagement of subcontractors. The increase in trade receivables was primarily due to the increase in revenue.

For the year ended 31 December 2017, we had net cash from operating activities of approximately HK\$28.4 million, which was primarily contributed by our profit before tax of approximately HK\$40.9 million, the increase in trade payables of approximately HK\$9.3 million and the depreciation of approximately HK\$8.1 million. These cash inflow was offset by the income tax payment of approximately HK\$10.8 million, the increase in inventories of approximately HK\$9.4 million and the increase prepayments, deposits and other receivables of approximately HK\$4.4 million. The increase in trade payables was primarily due to our purchase of raw materials from our suppliers and our engagement of subcontractors. The depreciation was mainly attributable to the depreciation charged for the leasehold improvements and plant and machinery. The payment of income tax was primarily attributable to income tax in 2016. The increase in inventories was mainly attributable to the increase in work in progress. The increase prepayments, deposits and other receivables was mainly attributable to the listing expenses and rebates from suppliers.

For the year ended 31 December 2018, we had net cash from operating activities of approximately HK\$12.3 million, which was primarily contributed by our profit before tax of approximately HK\$38.4 million. These cash inflow was offset by the increase trade receivables of approximately HK\$11.4 million, the increase in inventories of approximately HK\$9.7 million and the decrease in trade payables of approximately HK\$5.5 million. The increase in trade receivables was primarily due to the increase in revenue. The increase in inventories was mainly attributable to the increase in work in progress and finished goods. The decrease in trade payables was mainly attributable to the settlement to suppliers and subcontractors.

### **Cash flows used in investing activities**

Our cash flows used in investing activities primarily consisted of purchases of property, plant and equipment and increase in amount due from a director. Our cash inflow for investing activities primarily consisted of proceeds from disposals of property, plant and equipment and decrease in amounts due from related companies.

For the year ended 31 December 2016, our net cash used in investing activities amounted to approximately HK\$46.2 million, which was primarily attributable to our purchases of property, plant and equipment of approximately HK\$32.9 million mainly for setting up the Jiangxi Production Base and the increase in amount due from a director of approximately HK\$10.3 million.

For the year ended 31 December 2017, our net cash used in investing activities amounted to approximately HK\$40.3 million, which was primarily attributable to our purchases of property, plant and equipment of approximately HK\$16.3 million for our Jiangxi Production Base and the increase in amount due from a director of approximately HK\$24.3 million.

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For the year ended 31 December 2018, our net cash used in investing activities amounted to approximately HK\$37.6 million, which was primarily attributable to the increase in amount due from a director of approximately HK\$32.8 million.

### **Cash flows generated from financing activities**

Our cash flows generated from financial activities primarily consisted of proceeds from issue of shares and bank borrowings raised. Our cash outflow for financing activities primarily consisted of repayment of bank borrowings, dividends paid, repayment of unsecured loan and decrease in amount due to a director.

For the year ended 31 December 2016, our net cash from financing activities amounted to approximately HK\$12.7 million, which was primarily attributable to proceeds from issue of shares of approximately HK\$32.9 million mainly for the establishment of Jiangxi Huaqing and Ying Tan and the bank borrowings raised of approximately HK\$10.0 million. These cash inflow was partially offset by the decrease in amount due to a director of approximately HK\$19.2 million and the dividends paid of approximately HK\$10.5 million.

For the year ended 31 December 2017, our net cash from financing activities amounted to approximately HK\$3.2 million, which was primarily attributable to proceeds from issue of shares of approximately HK\$15.6 million for the increase of registered capital of Jiangxi Huaqing and the bank borrowings raised of approximately HK\$15.0 million. These cash inflow was partially offset by the repayment of unsecured loan of approximately HK\$15.2 million and the repayment of bank borrowings of approximately HK\$12.2 million.

For the year ended 31 December 2018, our net cash from financing activities amounted to approximately HK\$25.1 million, which was primarily attributable to proceeds from issue of shares of approximately HK\$12.0 million for the increase of registered capital of Shenzhen Hua Qing and the bank borrowings raised of approximately HK\$50.2 million. These cash inflow was partially offset by the repayment of bank borrowings of approximately HK\$30.1 million, finance expenses paid of approximately HK\$2.1 million and the dividends paid of approximately HK\$1.0 million.

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### Net current assets

The table below sets forth our current assets and current liabilities as at 31 December 2016, 31 December 2017, 31 December 2018 and 30 April 2019, respectively.

	As at 31 December			As at
	2016	2017	2018	30 April
	HK\$'000	HK\$'000	HK\$'000	2019
				HK\$'000
				(unaudited)
<b>Current assets</b>				
Inventories	30,486	44,870	52,205	62,401
Trade receivables	76,221	79,733	91,038	66,422
Prepayments, deposits and other receivables	5,716	10,501	9,522	15,897
Amount due from a director	10,268	34,604	–	–
Amounts due from related companies	19,684	19,237	–	–
Pledged bank deposits	–	–	2,760	–
Bank and cash balances	27,967	20,372	17,872	13,580
	<u>170,342</u>	<u>209,317</u>	<u>173,397</u>	<u>158,300</u>
<b>Current liabilities</b>				
Trade payables	47,024	58,607	51,210	43,417
Other payables and accruals	20,065	21,009	15,862	11,629
Deposits receipt in advance	1,850	1,122	3,009	1,994
Dividend payables	–	–	1,846	–
Amount due to a director	128	147	–	–
Amount due to a NCI shareholder	96	106	–	–
Lease liabilities	–	–	–	1,766
Finance lease payables	621	620	454	400
Bank borrowings	22,921	24,678	44,561	34,078
Unsecured loan	6,105	–	–	–
Current tax liabilities	6,614	3,334	682	2,213
	<u>105,424</u>	<u>109,623</u>	<u>117,624</u>	<u>95,497</u>
<b>Net current assets</b>	<b><u>64,918</u></b>	<b><u>99,694</u></b>	<b><u>55,773</u></b>	<b><u>62,803</u></b>

As at 31 December 2016, 31 December 2017, 31 December 2018 and 30 April 2019, we had net current assets of approximately HK\$64.9 million, HK\$99.7 million, HK\$55.8 million and HK\$62.8 million, respectively.

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As at 31 December 2016, we had net current assets of approximately HK\$64.9 million as compared to net current assets of approximately HK\$99.7 million as at 31 December 2017. This change was primarily due to the combined effect of (i) an increase in inventories primarily due to the increase in work in progress; (ii) an increase in amount due from a director of approximately HK\$24.3 million; (iii) the settlement of unsecured interest free loan of approximately HK\$6.1 million granted by Yujiang District People's Government for the purpose of promoting and encouraging the investment of merchants in Yujiang District, the PRC; and (iv) the increase in trade payables.

As at 31 December 2017, we had net current assets of approximately HK\$99.7 million as compared to net current assets of approximately HK\$55.8 million as at 31 December 2018. This change was primarily due to the combined effect of (i) the full settlement of amount due from a director of approximately HK\$34.6 million; (ii) the full settlement of amount due from related companies of approximately HK\$19.2 million; (iii) an increase in bank borrowings of approximately HK\$19.9 million; and (iv) an increase in inventories mainly due to the increase in work in progress and finished goods.

As at 31 December 2018, we had net current assets of approximately HK\$55.8 million as compared to net current assets of approximately HK\$62.8 million as at 30 April 2019, which was mainly due to the combined effect of (i) a decrease in trade receivables of approximately HK\$24.6 million; (ii) an increase in inventories of approximately HK\$10.2 million for preparing the upcoming sales in the coming few months; (iii) an increase in prepayments, deposits and other receivables mainly due to the listing fee; (iv) a decrease in bank borrowings of approximately HK\$10.5 million; and (v) a decrease in trade payables of approximately HK\$7.8 million.

### DISCUSSION OF SELECTED ITEMS FROM THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

#### Property, plant and equipment

Our property, plant and equipment mainly consisted of (i) land and buildings; (ii) leasehold improvements; and (iii) plant and machinery. The carrying amount of property, plant and equipment net of depreciation was approximately HK\$37.4 million, HK\$49.0 million and HK\$41.4 million as at 31 December 2016, 2017 and 2018, respectively.

As at 31 December 2016 and 31 December 2017, the increase in property, plant and equipment was primarily due to the increase in plant and machinery for improving the Jiangxi Production Base. As at 31 December 2017 and 31 December 2018, the decrease in property, plant and equipment was mainly a result of depreciation expenses recorded.

Please also refer to note 18 to our consolidated financial statements included in the Accountants' Report in Appendix I to this prospectus for further information.

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### Inventories

Our inventories consist of raw materials, work in progress, finished goods and goods-in-transit. We closely monitor our inventory through an ERP system. We believe that maintaining appropriate levels of inventories helps us deliver our eyewear products to meet the market demands in a timely manner without straining our liquidity. Please refer to the section headed “Business – Inventory Control” in this prospectus for further details of our inventory control policies. The value of our inventories accounted for approximately 17.9%, 21.4% and 30.1% of our total current assets as at 31 December 2016, 2017 and 2018, respectively. We recorded the net allowance for inventories of approximately HK\$0.7 million for the year ended 31 December 2016, after considered the slow-moving inventory. We recorded the net of reversal of allowance for inventories of approximately HK\$2.2 million and HK\$3,000 for the year ended 31 December 2017 and 31 December 2018. The net reversal of allowance for inventories was a result of actual write off.

Our balance of inventories increased from approximately HK\$30.5 million as at 31 December 2016 to approximately HK\$44.9 million as at 31 December 2017, mainly due to the increase in work in progress. The increase in work in progress was primarily due to the increase in demand of our products before the Chinese Lunar New Year in January 2018. As at 31 December 2018, our inventories amounted to approximately HK\$52.2 million, the increase of approximately HK\$7.3 million was primarily due to the increase in finished goods. The increase in finished goods was primarily due to the scheduled shipment of our products to be delivered to our customers in 2019.

Please also refer to note 20 to our consolidated financial statements included in the Accountants’ Report in Appendix I to this prospectus for further information.

The following table sets forth the average turnover days of our inventories for the years indicated:

	<b>For the year ended 31 December</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
Average inventory turnover days <sup>(Note)</sup>	45	51	55

*Note:* The average inventory turnover days is calculated based on the average of the beginning and ending balance of inventories for the year divided by cost of sales for the year and multiplied by (i) 366 days for the year ended 31 December 2016; and (ii) 365 days for each of the years ended 31 December 2017 and 2018.

Average inventory turnover days ranged from approximately 45 days to 55 days during the Track Record Period. The average inventory turnover days increased from approximately 45 days for the year ended 31 December 2016 to approximately 51 days for the year ended 31 December 2017 was primarily due to the increase in demand of our products before the Chinese Lunar New Year in January 2018.

The average inventory turnover days increased from approximately 51 days for the year ended 31 December 2017 to approximately 55 days for the year ended 31 December 2018 which was primarily due to the scheduled shipment of our products to be delivered to our customers in January 2019.

As at 30 April 2019, approximately HK\$44.5 million or 85.2% of our inventories as at 31 December 2018 had been utilised or sold.

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### Trade receivables

The following table sets out a breakdown of our trade receivables as of the dates indicated:

	<b>As at 31 December</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivables	76,221	80,154	91,038
Less: Allowance for doubtful debts	—	(421)	—
	<u>          </u>	<u>          </u>	<u>          </u>
Total	<u>76,221</u>	<u>79,733</u>	<u>91,038</u>

Trade receivables primarily consist of outstanding balance to be received from our customers. During the Track Record Period, we conducted our sales mainly by credit sales. We generally granted a credit period of 30 to 120 days. Please refer to the section headed “Business – Sales and Marketing – Credit policy and payment methods” for further details of our credit policy.

We have entered into receivables purchase agreements with a bank for the factoring of trade receivables with certain designated customers. As at 31 December 2016, 2017 and 2018, trade receivables factored to the bank aggregated to approximately HK\$9.4 million, HK\$14.4 million and HK\$16.6 million, respectively, and all of which were derecognised from the consolidated statements of financial position because, in the opinion of our Directors, our Group has transferred substantially all the risks and rewards of ownership in respect of the relevant factored receivables to the bank.

Trade receivables increased from approximately HK\$76.2 million as at 31 December 2016 to approximately HK\$79.7 million as at 31 December 2017 which was generally in line with the increase in our revenue for the year ended 31 December 2016; and partially offset by the effect of trade receivables de-recognised for obtaining borrowings from receivables purchase agreements and the allowance for doubtful debts. The individually impaired trade receivables related to a customer that was in unexpected financial difficulties. Our Group does not hold any collateral or credit enhancements over this balance. Please refer to the section headed “Business – Sales and Marketing – Allowance policy” for further details of our provision policy.

Trade receivables increased from approximately HK\$79.7 million as at 31 December 2017 to approximately HK\$91.0 million as at 31 December 2018, which was generally in line with the increase in our revenue for the year ended 31 December 2018.

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The following table sets forth a summary of aging analysis of trade receivables, based on the delivery date, and net of allowance, at the dates indicated:

	As at 31 December		
	2016	2017	2018
	HK\$'000	HK\$'000	HK\$'000
Up to 60 days	53,869	63,541	65,000
61 to 120 days	17,170	14,043	16,655
121 to 180 days	4,224	1,988	6,526
Over 180 days	958	161	2,857
<b>Total</b>	<b>76,221</b>	<b>79,733</b>	<b>91,038</b>

The following table sets forth a summary of aging analysis of trade receivables, which are past due but not impaired, based on past due dates, at the end of each reporting period:

	As at 31 December		
	2016	2017	2018
	HK\$'000	HK\$'000	HK\$'000
Overdue by:			
Up to 60 days	14,703	15,968	10,701
61 to 120 days	2,971	417	5,146
121 to 180 days	433	1	2,397
Over 180 days	379	160	346
<b>Total</b>	<b>18,486</b>	<b>16,546</b>	<b>18,590</b>

As at 31 December 2016, 2017 and 2018, trade receivables of approximately HK\$18.5 million, HK\$16.5 million and HK\$18.6 million were past due but not impaired, representing approximately 24.3%, 20.8% and 20.4% of the trade receivables, respectively. These related to trade receivables from a number of independent customers of whom there is no recent history of default.

As at 30 April 2019, approximately HK\$84.7 million or 93.0% of our trade receivables as at 31 December 2018 were subsequently settled.

The following table sets out the average trade receivables turnover days for the years indicated:

	For the year ended 31 December		
	2016	2017	2018
	Days	Days	Days
Average trade receivables turnover days <sup>(Note)</sup>	75	78	74

*Note:* The average trade receivables turnover days is calculated based on the average of the beginning and ending balance of trade receivables for the year divided by revenue during the year and multiplied by (i) 366 days for the year ended 31 December 2016; and (ii) 365 days for each of the years ended 31 December 2017 and 2018.

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Average receivables turnover days was approximately 75 days, 78 days and 74 days for the ended 31 December 2016, 2017 and 2018, respectively, which was relatively stable throughout the period and was generally in line with our credit terms granted to our customers.

### *Prepayments, deposits and other receivables*

The following table sets forth the breakdown of our prepayments, deposits and other receivables as at the dates indicated:

	As at 31 December		
	2016	2017	2018
	HK\$'000	HK\$'000	HK\$'000
<b>Prepayments</b>			
Listing expenses	–	3,907	2,006
Administrative and operating expenses	35	457	401
	<u>35</u>	<u>4,364</u>	<u>2,407</u>
<b>Deposits</b>			
Deposits paid for property, plant and equipment <i>(Note)</i>	257	703	507
Customs deposits	–	–	467
Rental deposits	379	382	304
Trade deposits	222	–	1,616
Utility deposits	30	36	31
Others	36	–	–
	<u>924</u>	<u>1,121</u>	<u>2,925</u>
<b>Other receivables</b>			
Advances to staff	257	306	184
Rebates from suppliers	686	2,701	2,030
Export tax refundable	1,273	1,724	1,656
Property tax refundable	577	–	–
Raw materials to subcontractors	648	299	–
VAT receivables	1,572	629	518
Others	1	60	309
	<u>5,014</u>	<u>5,719</u>	<u>4,697</u>
	<u>5,973</u>	<u>11,204</u>	<u>10,029</u>
Non-current portion	257	703	507
Current portion	<u>5,716</u>	<u>10,501</u>	<u>9,522</u>
	<u>5,973</u>	<u>11,204</u>	<u>10,029</u>

*Note:* Deposits paid for property, plant and equipment was recognised as non-current portion and mainly attributable to the deposit paid to the plant and machinery for Jiangxi Production Base.



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Prepayments mainly represent prepaid listing expenses. Deposits mainly represent trade deposits, deposits paid for property, plant and equipment and rental deposits. Other receivables mainly represent export tax refundable, rebates from suppliers, raw materials to subcontractors and VAT receivables.

Our prepayments, deposits and other receivables increased from approximately HK\$6.0 million for the year ended 31 December 2016 to approximately HK\$11.2 million for the year ended 31 December 2017, which was primarily attributable to (i) the listing expenses amounted to approximately HK\$3.9 million recorded in 2017; (ii) an increase in rebates from suppliers amounted to approximately HK\$2.0 million due to the increase in purchase; and partially offset by (iii) a decrease in VAT receivables amounted to approximately HK\$0.9 million; (iv) a decrease in raw materials to subcontractors amounted to approximately HK\$0.3 million; and (v) no property tax refundable recorded in 2017.

Our prepayments, deposits and other receivables decreased from approximately HK\$11.2 million for the year ended 31 December 2017 to approximately HK\$10.0 million for the year ended 31 December 2018, which was primarily attributable to (i) a decrease in rebates from suppliers of approximately HK\$0.7 million that were incurred in our purchase for the year ended 31 December 2018; (ii) a decrease in prepaid listing expenses of approximately HK\$1.9 million; and (iii) partially offset by an increase in trade deposits of approximately HK\$1.6 million.

### **Amounts due from/(to) directors**

The amounts due from/(to) directors are non-trade in nature, unsecured, interest free and have been fully settled prior to 31 December 2018. During the Track Record Period, the amount due from a Director was primarily attributable to the investment in Shenzhen Production Base and Jiangxi Production Base before the Reorganisation. Please refer to note 22 to our consolidated financial statements included in the Accountants' Report in Appendix I to this prospectus for further information.

### **Amounts due from related companies**

Please refer to note 23 to our consolidated financial statements included in the Accountants' Report in Appendix I to this prospectus for further information.

### **Trade payables**

Our trade payables primarily represent amounts payable to our suppliers and subcontractors. Settlement is generally made in accordance with the terms specified in the purchase orders governing the relevant transactions. Our suppliers generally grant us credit terms of 30 to 90 days.

Our trade payables was at approximately HK\$47.0 million, HK\$58.6 million and HK\$51.2 million as at 31 December 2016, 2017 and 2018, respectively.

Our trade payables increased from approximately HK\$47.0 million as at 31 December 2016 to approximately HK\$58.6 million as at 31 December 2017 primarily due to increase in the purchase of raw materials and subcontracting cost in response to our increased sales. Our trade payables decreased from approximately HK\$58.6 million as at 31 December 2017 to approximately HK\$51.2 million as at 31 December 2018 primarily due to the settlement to suppliers and subcontractors.

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The following table sets forth an aging analysis of trade payables presented based on the date of receipt of goods as at the dates indicated:

	<b>As at 31 December</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Up to 60 days	37,519	47,034	42,194
61 – 90 days	5,647	7,511	7,162
91 – 180 days	3,428	3,796	1,416
Over 180 days	430	266	438
	<u>47,024</u>	<u>58,607</u>	<u>51,210</u>

The following table sets forth the average trade payables turnover days for the years indicated:

	<b>For the year ended 31 December</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>Days</i>	<i>Days</i>	<i>Days</i>
Average trade payables turnover days <sup>(Note)</sup>	<u>59</u>	<u>72</u>	<u>62</u>

*Note:* The turnover days of trade payables is calculated based on the average of the beginning and ending balance of trade payables for the year divided by corresponding cost of sales during the year and multiplied by (i) 366 days for the year ended 31 December 2016; and (ii) 365 days for each of the years ended 31 December 2017 and 2018.

Average trade payables turnover days increased from approximately 59 days for the year ended 31 December 2016 to approximately 72 days for the year ended 31 December 2017 primarily due to the increase in proportion of purchases from suppliers with relatively longer credit terms during the year ended 31 December 2017 as compared to the previous year. For the year ended 31 December 2018, average trade payables turnover days decreased to approximately 62 days which was mainly due to the settlement to suppliers and subcontractors.

As at 30 April 2019, approximately HK\$50.5 million or 98.6% of our trade payables as at 31 December 2018 were subsequently settled.

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### Other payables and accruals

The following table sets forth the components of our other payables and accruals as at the dates indicated:

	As at 31 December		
	2016	2017	2018
	HK\$'000	HK\$'000	HK\$'000
Accrued staff costs	9,093	9,321	7,497
Accrued administrative and operating expenses	1,853	3,201	3,542
Purchases of property, plant and equipment	7,719	5,902	1,613
Accrued sales rebate to customers	1,018	1,770	1,832
Accrued various tax expenses	261	385	474
VAT payables	121	430	904
<b>Total</b>	<b>20,065</b>	<b>21,009</b>	<b>15,862</b>

Our other payables and accruals mainly represent accrued salaries for our staff, accrued administrative and operating expenses, accruals for purchases of property, plant and equipment, and others. Our Group's other payables and accruals remained stable at approximately HK\$20.1 million as at 31 December 2016 and approximately HK\$21.0 million as at 31 December 2017. The decrease in our Group's other payables and accruals from approximately HK\$21.0 million as at 31 December 2017 to approximately HK\$15.9 million as at 31 December 2018 was mainly due to decrease in accrued staff costs and decrease in purchases of property, plant and equipment.

### Deposits receipt in advance

Deposits receipt in advance represents the deposit received from certain of our customers. The deposit was paid by such customers before the products were shipped. As at 31 December 2016, 2017 and 2018, the deposits receipt in advance was approximately HK\$1.9 million, HK\$1.1 million and HK\$3.0 million, respectively.

### Amount due to a NCI shareholder

Amount due to a NCI shareholder represents amount due to Mr. Russell Dobney, who holds 50% shareholding interest of Central Designs. As at 31 December 2016, 2017 and 2018, amount due to Mr. Russell Dobney was approximately HK\$96,000, HK\$106,000 and nil, respectively, which is non-trade in nature, unsecured, interest free and has been fully settled prior to 31 December 2018.

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## FINANCIAL INFORMATION

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### Derivative financial instruments

Most of our operating expenses are denominated in RMB and most of our sales are denominated and settled in USD. In 2014, before the Track Record Period, we entered into two foreign exchange forward contracts which expired during the Track Record Period with two financial institutions in Hong Kong to mitigate our exposures to foreign exchange risks. Our Group entered into foreign exchange forward contracts in respect of RMB against USD under which if the USD/RMB spot rate is lower than that of forward or strike rate, resulting in gain for us and effectively mitigate our exposure to RMB exchange risk.

For the years ended 31 December 2016, 2017 and 2018, our Group had realised losses on foreign currency contracts of approximately HK\$3.7 million, nil and nil, respectively. Set out below is the summary of the terms of the foreign exchange forward contracts during the Track Record Period:

No	Contract date	Maturity date	Term	Notional amount	Forward/ strike rate
1	2 September 2014	25 August 2016	24 settlements, approximately once a month	USD600,000	6.26
2	20 October 2014	20 October 2016	24 settlements, approximately once a month	USD600,000	6.27

As at 31 December 2016, 2017 and 2018, the notional amount of the outstanding foreign exchange forward contracts to sell USD and buy RMB was nil, nil, and nil, respectively.

As at 31 December 2016, all structured foreign currency forward contracts have matured after the last settlement date. Having considered the realised loss on such derivative financial instruments during the exercisable periods, we have ceased entering into new structured foreign currency contracts with any financial institutions since the final settlement date (i.e. 20 October 2016). Please refer to the section headed “Business – Internal Control and Risk Management Measures – Investment management policy” in this prospectus for further details in the control of our investment.

### INDEBTEDNESS

#### Bank borrowings

Our Group had bank borrowings of approximately HK\$22.9 million, HK\$24.7 million and HK\$44.6 million as at 31 December 2016, 2017 and 2018, respectively. We primarily use our bank borrowings for our operational needs, including but not limited to payments to our suppliers and subcontractors. Our bank borrowings amount fluctuated during the Track Record Period in accordance with the financing needs in the corresponding years.

## FINANCIAL INFORMATION

The bank borrowings are repayable, based on scheduled repayment date set out in the loan agreements, as follows:

	As at 31 December			As at 30 April 2019
	2016	2017	2018	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (Unaudited)
Within one year	7,256	7,766	22,860	18,370
More than one year, but not exceeding two years	6,055	7,259	16,730	11,227
More than two years, but not exceeding five years	5,849	6,966	3,371	3,237
More than five years	3,761	2,687	1,600	1,244
<b>Total</b>	<b>22,921</b>	<b>24,678</b>	<b>44,561</b>	<b>34,078</b>

The table below sets forth the breakdown of types of bank borrowings as at the dates indicated:

	As at 31 December			As at 30 April 2019
	2016	2017	2018	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (Unaudited)
Term loans	21,657	24,489	44,561	34,078
Bank overdrafts	1,264	189	–	–
<b>Total</b>	<b>22,921</b>	<b>24,678</b>	<b>44,561</b>	<b>34,078</b>

All our bank borrowings are secured and guaranteed jointly and severally by either (i) our executive directors and non-executive directors; or (ii) our executive directors, non-executive directors with either Southern China or Sungo. Some of the borrowings are legally charged by the properties owned by Mr. Ken Kwok and/or Southern China. One of the borrowings are secured by corporate guarantee executed by The Hong Kong Mortgage Corporation Limited and one of the borrowings are secured by the government guarantee executive by The Government of the Hong Kong Special Administrative Region. During the Track Record Period, our term loans carry effective interest rates ranging from 1.25% to 5.50% per annum. Please refer to note 28 to our consolidated financial statements included in the Accountants' Report in Appendix I to this prospectus for further information. Our Directors confirm that the personal guarantees provided by our executive directors, non-executive directors, Southern China and Sungo will be released and replaced by the corporate guarantee provided by our Company upon Listing.

During the Track Record Period, the bank borrowing agreements were entered into with the lenders under normal standard terms and conditions and do not contain any special restrictive covenants. During the Track Record Period and as of the Latest Practicable Date, none of our lenders have claimed default against us under any of the terms in the bank borrowing agreements.

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## FINANCIAL INFORMATION

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Our Directors confirm that our Group has not experienced any difficulty in obtaining bank borrowings, default in payment on bank borrowings or breach of finance covenants during the Track Record Period and up to the Latest Practicable Date.

### **Unsecured loan**

Our Group had an unsecured loan of approximately HK\$6.1 million, nil and nil as at 31 December 2016, 2017 and 2018, respectively. Such unsecured loan represents unsecured interest free loan granted by Yujiang District People's Government to our Group for the purpose of promoting and encouraging investments in Yujiang District. The loan is denominated in RMB and was fully repaid in December 2017.

### **Lease liabilities**

Our Group has adopted HKFRS 16 for the accounting period beginning on 1 January 2019 as stated in note 3 of the Accountants' Report in Appendix I to the prospectus. As such, leases have been recognized in the form of an asset (for the right of use) and a financial liability (for the payment obligation) in our Group's consolidated statements of financial position for accounting period beginning on 1 January 2019. As at 30 April 2019, our total lease liabilities were HK\$6.4 million.

### **Obligation under a finance lease**

We leased motor vehicles and office equipment under finance leases with a range of three to five years. As at 31 December 2016, 2017 and 2018, the obligations under finance lease due within one year were approximately HK\$0.6 million, HK\$0.6 million and HK\$0.5 million, respectively. Interest rates underlying all obligations under finance leases were fixed at respective contract date and was at an average flat rate of approximately 2.0%, 1.8% and 1.8% as at 31 December 2016, 2017 and 2018, respectively. Please refer to note 27 to our consolidated financial statements included in the Accountants' Report in Appendix I to the prospectus for further information.

Save as aforesaid or otherwise disclosed herein, as at 30 April 2019, being the latest practicable date for the purpose of the indebtedness statement, we did not have any outstanding loan capital or debt securities issued or agreed to be issued, bank overdrafts, loans, borrowings or other similar indebtedness, liabilities under acceptance (other than normal trade bills) or acceptance credits, debentures, mortgages charges, finance leases, hire purchase commitments, guarantees or other material contingent liabilities. As at 30 April 2019, our Group had aggregate unutilised banking facilities of approximately HK\$19.0 million and approximately 47.1% of the aggregate banking facilities were utilised.

### **WORKING CAPITAL**

Taking into account the financial resources available to our Group, including the available cash and cash equivalents, banking facilities, cash flows generated from our operations, and the estimated net proceeds from the Share Offer, our Directors are of the view, and the Sole Sponsor concurs, that our Group has available sufficient working capital for our present requirements for at least the next 12 months commencing from the date of this prospectus.

## FINANCIAL INFORMATION

### CAPITAL EXPENDITURES

For the years ended 31 December 2016, 2017 and 2018, we incurred expenditure in respect of additions of land and buildings, leasehold improvements, plant and machinery, office equipment, computer equipment, furniture and fixtures and motor vehicles. We principally funded our capital expenditures through internal resources, shareholders' capital injection and bank borrowings. The table below sets forth our Group's capital expenditure during the Track Record Period:

	As at 31 December		
	2016	2017	2018
	HK\$'000	HK\$'000	HK\$'000
Land and buildings	14,486	–	–
Leasehold improvements	4,981	3,493	776
Plant and machinery	12,710	10,983	4,174
Office equipment	96	1,056	56
Computer equipment	88	96	225
Furniture and fixtures	52	292	–
Motor vehicles	1,412	1,293	–
<b>Total</b>	<b>33,825</b>	<b>17,213</b>	<b>5,231</b>

### COMMITMENTS

#### Capital commitments

As at 31 December 2016, 2017 and 2018, we had capital commitments of approximately HK\$0.2 million, HK\$0.2 million and HK\$0.6 million, respectively, in relation to the purchase of property, plant and equipment, which had been contracted for at the end of the Track Record Period but not yet incurred.

#### Operating lease commitments

As at the respective dates as set out below, our Group had operating lease commitments for the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	As at 31 December		
	2016	2017	2018
	HK\$'000	HK\$'000	HK\$'000
Within one year	2,022	1,934	1,927
In the second to fifth years inclusive	448	6,371	5,459
After five years	–	264	–
<b>Total</b>	<b>2,470</b>	<b>8,569</b>	<b>7,386</b>

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## FINANCIAL INFORMATION

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Operating lease payments represent rentals payable by us for its offices. Leases are negotiated for an average term of three years, four years and four years as at 31 December 2016, 2017 and 2018, respectively, and rentals are fixed over the lease terms and do not include contingent rentals.

### CONTINGENT LIABILITIES

As at 31 December 2016, 2017 and 2018, our Group did not have any significant contingent liabilities.

### POST BALANCE SHEET EVENTS

For significant events that took place subsequent to 31 December 2018, please refer to “Recent Developments and No Material Adverse Change” in this section and “Accountants’ Report on Historical Financial Information — Notes to Historical Financial Information – 38. Event after the Reporting Period” set forth in Appendix I in this prospectus.

### OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENT

As at the Latest Practicable Date, our Group had not entered into any material off-balance sheet commitments and arrangement.

### RELATED PARTY TRANSACTIONS

With respect to the related party transactions set out in note 37 to the Accountants’ Report in Appendix I in this prospectus, our Directors confirm that these transactions were conducted on normal commercial terms and/or that such terms were no less favourable to us than terms available from Independent Third Parties and were fair and reasonable and in the interest of the Shareholders as a whole.

### KEY FINANCIAL RATIOS

The table below sets forth our selected key financial ratios during the Track Record Period:

	As at/for the year ended 31 December		
	2016	2017	2018
Gross profit margin <sup>(Note 1)</sup>	27.4%	25.9%	23.0%
Net profit margin <sup>(Note 2)</sup>	14.1%	9.1%	7.4%
Gearing ratio <sup>(Note 3)</sup>	30.3%	17.6%	46.3%
Interest coverage <sup>(Note 4)</sup>	76.3 times	38.2 times	19.5 times
Current ratio <sup>(Note 5)</sup>	1.6 times	1.9 times	1.5 times
Quick ratio <sup>(Note 6)</sup>	1.3 times	1.5 times	1.0 time
Return on equity <sup>(Note 7)</sup>	43.4%	21.8%	31.2%
Return on assets <sup>(Note 8)</sup>	21.2%	12.5%	14.1%

Notes:

1. The gross profit margin is calculated by dividing the gross profit by the revenue for the respective year multiplied by 100%. Please refer to the paragraph headed “Year to Year Comparison of Results of Operations” in this section for more details on our gross profit margins.



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## FINANCIAL INFORMATION

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2. The net profit margin is calculated by dividing the net profit by the revenue for the respective year multiplied by 100%.
3. The gearing ratio is calculated by dividing total bank borrowings, unsecured loan and obligation under a finance lease with total equity as at the end of respective year multiplied by 100%.
4. Interest coverage is calculated by profit before interest (including finance income) and tax divided by interest expenses for the respective year.
5. The current ratio is calculated by dividing current assets with current liabilities as at the end of the respective year.
6. The quick ratio is calculated by dividing current assets less inventories with current liabilities as at the end of respective year multiplied by 100%.
7. Return on equity equals the net profit attributable to owners of the Company for the year divided by the total equity as at the end of the respective year multiplied by 100%.
8. Return on assets is calculated by the net profit attributable to owners of the Company for the year divided by the total assets as at the end of the respective year multiplied by 100%.

### Net profit margin

The net profit margin decreased from approximately 14.1% for the year ended 31 December 2016 to approximately 9.1% for the year ended 31 December 2017, which was primarily due to (i) the decrease in other gains and losses which changed from a gain position of approximately HK\$5.0 million for the year ended 31 December 2016 to a loss position of approximately HK\$0.9 million for the year ended 31 December 2017; and (ii) the increase in administrative and other operating expenses of approximately HK\$11.0 million mainly attributable to the listing expenses and an increase in staff salaries and welfare. The net profit margin decreased from approximately 9.1% for the year ended 31 December 2017 to approximately 7.4% for the year ended 31 December 2018 primarily due to the increase in administrative expenses of approximately HK\$8.4 million as a result of the increase in salaries and recruitment of additional administrative personnel and the listing expenses recognised during the year.

### Gearing Ratio

Our gearing ratio were approximately 30.3%, 17.6% and 46.3% as at 31 December 2016, 2017 and 2018, respectively. Our gearing ratio decreased from approximately 30.3% as at 31 December 2016 to approximately 17.6% as at 31 December 2017 primarily due to the increase in share capital and reserves. Our gearing ratio increased from approximately 17.6% as at 31 December 2017 to approximately 46.3% as at 31 December 2018 primarily due to the combined effect of (i) increase of bank borrowings; and (ii) dividends paid.

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## FINANCIAL INFORMATION

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### Interest coverage

Our interest coverage ratio were approximately 76.3 times, 38.2 times and 19.5 times as at 31 December 2016, 2017 and 2018, respectively. Our interest coverage ratio decreased from approximately 76.3 times as at 31 December 2016 to approximately 38.2 times as at 31 December 2017 primarily due to (i) the decrease in other gains and losses which changed from a gain position of approximately HK\$5.0 million for the year ended 31 December 2016 to a loss position of approximately HK\$0.9 million for the year ended 31 December 2017; and (ii) the increase in administrative and other operating expenses of approximately HK\$11.0 million mainly attributable to the listing expenses and an increase in staff salaries and welfare. Our interest coverage ratio decreased from approximately 38.2 times as at 31 December 2017 to approximately 19.5 times as at 31 December 2018, which was primarily due to the decrease in profit before interest and tax for the period as a result of the increase in salaries and welfare, the listing expenses recognised during the period and the increase in bank borrowings.

### Current ratio

Our current ratio were approximately 1.6 times, 1.9 times and 1.5 times as at 31 December 2016, 2017 and 2018, respectively. Our current ratio maintained relatively stable as at 31 December 2016 and 2017. Our current ratio decreased from approximately 1.9 times as at 31 December 2017 to 1.5 times as at 31 December 2018 primarily due to (i) increase of bank borrowings; and (ii) decrease of amount due from a director.

### Quick ratio

Our quick ratio were approximately 1.3 times, 1.5 times and 1.0 time as at 31 December 2016, 2017 and 2018, respectively. Our quick ratio maintained relatively stable as at 31 December 2016 and 2017. Our quick ratio decreased from approximately 1.5 times as at 31 December 2017 to 1.0 time as at 31 December 2018 primarily due to (i) increase of bank borrowings; (ii) decrease in amount due from a director; and (iii) increase in inventories.

### Return on equity

Our return on equity were approximately 43.4%, 21.8% and 31.2% for the years ended 31 December 2016, 2017 and 2018, respectively. Our return on equity decreased from approximately 43.4% for the year ended 31 December 2016 to approximately 21.8% for the year ended 31 December 2017 mainly due to increase in equity base during the year and the decrease of the net profit attributable to owners of the Company. Our return on equity increased from approximately 21.8% for the year ended 31 December 2017 to approximately 31.2% for the year ended 31 December 2018 mainly due to decrease of equity base during the year and the decrease of the net profit attributable to owner of the Company.

### Return on assets

Our return on assets were approximately 21.2%, 12.5% and 14.1% for the years ended 31 December 2016, 2017 and 2018, respectively.

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## FINANCIAL INFORMATION

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Our return on assets decreased from approximately 21.2% for the year ended 31 December 2016 to approximately 12.5% for the year ended 31 December 2017 was principally attributable to (i) the decrease in the net profit attributable to owners of the Company by approximately 26.8% as mainly driven by the increase in administrative and other operating expenses; and (ii) the increase in the total assets by approximately 24.3% as mainly driven by the increase in amount due from a director, inventories and property, plant and equipment. Our return on assets increased from approximately 12.5% for the year ended 31 December 2017 to approximately 14.1% for the year ended 31 December 2018 mainly due to decrease in amount due from a director.

### FINANCIAL RISK MANAGEMENT

During our conduct of business, we are exposed to various types of market risks including interest rate risk, credit risk and liquidity risk.

Details of the risks to which we are exposed to are set out in note 6 to the Accountants' Report set out in Appendix I in this prospectus.

### DIVIDENDS AND DISTRIBUTABLE RESERVES

During the year ended 31 December 2016, dividends of approximately HK\$10.5 million was declared by Kelfred and distributed to the then shareholder and was settled in full by cash. During the year ended 31 December 2017, dividends of approximately HK\$6.2 million and HK\$0.6 million was declared by Kelfred and Central Designs and distributed to the then shareholders, respectively and was settled in full by cash. During the year ended 31 December 2018, dividends of approximately HK\$80.0 million, HK\$2.0 million and HK\$7.6 million was declared by Kelfred, Central Designs and Shenzhen Hua Qing and distributed to the then shareholders. Save for HK\$1.8 million which was settled in full by cash subsequent to the year ended 31 December 2018 and as at the Latest Practicable Date, the remaining dividends of HK\$87.8 million declared during the year ended 31 December 2018 was settled in full by (i) cash of approximately HK\$1.0 million; (ii) offsetting the amount due from a director of approximately HK\$67.5 million primarily attributable to the investment of Shenzhen Production Base and Jiangxi Production Base; and (iii) offsetting amounts due from a related company of approximately HK\$19.3 million. The dividend distribution record in the past may not be used as a reference or basis to determine the level of dividends that may be declared or paid by our Board in the future.

After completion of the Share Offer, while we currently have no plans to pay dividends to the Shareholders in the foreseeable future, we may distribute dividends by way of cash or by other means that our Directors consider appropriate. A decision to distribute any interim dividend or recommend any final dividend would require the approval of our Board and will be at its discretion. In addition, any final dividend for a financial year will be subject to Shareholders' approval. A decision to declare or pay any dividend in the future and the amount of any dividends depends on a number of factors, including but not limited to our results of operations, financial condition, working capital, capital requirements and other factors our Board may deem relevant. We will re-evaluate our dividend policy annually. Our Board has the absolute discretion to decide whether to declare or distribute dividends in any year. There is no assurance that dividends of such amount or any amount will be declared or distributed each year or in any year.

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## FINANCIAL INFORMATION

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As at the Latest Practicable Date, our Company has no distributable reserves available for distribution to our Shareholders.

### LISTING EXPENSES

The total estimated listing expenses in connection with the Share Offer are approximately HK\$44.3 million (based on the mid-point of the Offer Price of HK\$1.1 per Offer Share), of which approximately HK\$3.2 million and HK\$7.1 million had been charged to our consolidated statements of profit or loss and other comprehensive income for the years ended 31 December 2017 and 2018 respectively, and approximately HK\$12.7 million are expected to be charged to our consolidated statements of profit or loss and other comprehensive income for the year ending 31 December 2019, respectively. The remaining amount of approximately HK\$21.3 million is expected to be accounted for as a deduction from equity upon the Listing.

Our Directors consider that our financial results will be adversely affected by the expenses in relation to the Share Offer for the year ending 31 December 2019, respectively.

### PROPERTY INTERESTS AND PROPERTY VALUATION REPORT

Save for our Jiangxi Production Base, the value of which is disclosed in the property valuation report in Appendix III to this prospectus, no single property we own has a carrying amount of 15% or more of our total assets. Greater China Appraisal Limited, an independent property valuation firm, has valued the properties owned by us in Jiangxi, the PRC as at 30 April 2019. The text of its letter and valuation certificate are set out in the Property Valuation Report as set out in Appendix III to this prospectus.

A statement of the reconciliation of the unaudited carrying amounts of the property interests of our Group as of 30 April 2019 and the valuation of such property interest as of 30 April 2019 as required under Rule 5.07 of the Listing Rules is set out below.

	<i>HK\$'000</i>
Carrying amounts of land and building of our Group as of 30 April 2019	13,464
Valuation surplus as of 30 April 2019	11,558
Valuation as of 30 April 2019	25,022

### UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

For details of our unaudited pro forma adjusted combined net tangible assets, please refer to the section headed “Unaudited Pro forma Financial Information” in Appendix II to this prospectus.

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## FINANCIAL INFORMATION

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### RECENT DEVELOPMENTS AND NO MATERIAL ADVERSE CHANGE

Subsequent to the Track Record Period and up to the Latest Practicable Date, we continued to focus on our eyewear manufacturing and exporting business, and our business model remains unchanged. Based on the unaudited financial information of our Group, we continued to record growth in our revenue and gross profit for the four months ended 30 April 2019 as compared to the corresponding period in 2018. Such growth was mainly attributable to the increase in purchase orders placed by our customers.

Our Directors confirm that save for the estimated non-recurring listing expenses as disclosed in the paragraph headed “Listing Expenses” in this section, since 31 December 2018 and up to the date of this prospectus, (i) there was no material adverse change in the market conditions and the industry and the regulatory environment in which our Group operates that affects our financial or operating position materially and adversely; (ii) there was no material adverse change in the business, revenue structure, trading, profitability, cost structure, financial position and prospects of our Group; and (iii) no event had occurred that would affect the information shown in our Accountants’ Report in Appendix I to this prospectus materially and adversely.

### DISCLOSURE REQUIRED UNDER THE LISTING RULES

As at the Latest Practicable Date, our Directors confirm that there were no circumstances that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

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## FUTURE PLANS AND USE OF PROCEEDS

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### BUSINESS OBJECTIVES AND STRATEGIES

Our business objectives are to strengthen our position in the eyewear industry and further expand our business operations with a view to creating long-term Shareholders' value. For further details, please refer to the section headed "Business" in this prospectus.

### REASONS FOR THE SHARE OFFER AND USE OF PROCEEDS

#### Reasons for the Share Offer

##### *Business opportunities and growth driven in view of industry outlook*

According to the Frost & Sullivan Report, the export value of spectacle frames in the PRC rose from approximately USD1,252.4 million in 2014 to USD1,495.8 million in 2018 at a CAGR of 4.5%. As a result of our Group's continued effort in expanding our business operations and capture the market growth in the eyewear manufacturing industry through manufacturing and sales of quality eyewear products, our revenue increased significantly by 14.1% from approximately HK\$318.0 million for the year ended 31 December 2016 to approximately HK\$362.8 million for the year ended 31 December 2017, and further to approximately HK\$421.1 million for the year ended 31 December 2018. We have demonstrated our ability in exceeding the performance of the overall spectacle frame manufacturing market in the PRC under the leadership of our management.

Further, according to the Frost & Sullivan Report, the European retail market in eyewear products is positive and is expected to grow at a CAGR of 4.2% and would reach approximately USD28.6 billion by 2023, whereas it is expected that US retail market in eyewear products will grow at a CAGR of 2.4% and reach approximately USD11.5 billion in 2023. Our CAGR in revenue for the years between 2016 and 2018 were approximately 15.1%, which is higher than the CAGR of 2.9% and 1.9% of the European and US retail sales value of eyewear products between 2016 and 2018 based on the Frost & Sullivan Report, respectively, demonstrating the capability of our Group in better performing over the overall eyewear retail market in Europe and US during the Track Record Period. As such, we believe we could capture the anticipated growth in the European and US eyewear market going forward. Furthermore, as at the Latest Practicable Date, we have entered into letters of intent with four of our top five customers on our future cooperation and the increase in the expected value of orders these customers place with our Group. In order to capture the growing potential in the retail eyewear products industry in Europe and to meet the intended increase in purchase orders placed by our customers, we expect to incur capital expenditures in the sum of HK\$43.0 million for acquiring machinery and equipment to increase our production capacity and cater for the implementation of our future plans, which commensurate with our past business strategy whereby we purchased machinery and equipment of approximately HK\$27.9 million during the Track Record Period for setting up our self-owned Jiangxi Production Base and our existing Shenzhen Production Base.

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## FUTURE PLANS AND USE OF PROCEEDS

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### *To capture business opportunities through improving our production capacity*

Our Directors believe that our Group has established and maintained long-term relationships with our customers and that our success is attributable to, among others, our strong expertise, product know-how and quality control. During the Track Record Period, we from time to time subcontracted the manufacturing of the entire eyewear product or part of the production process (such as brazing) to our subcontractors. Although we conduct stringent quality control over the quality of products manufactured or handled by our subcontractors, we do not manage our subcontractors directly and if they cease to operate their production or processing businesses, or fail to meet our production or delivery schedule or our required quality standards and specifications, if we fail to identify alternative subcontractors in a timely manner, at acceptable prices or with the required production or processing quality, our business may be disrupted and our reputation, financial condition and results of operations may be adversely affected. By utilising the proceeds from the Share Offer to strengthen our production capacity, we plan to reduce our reliance on subcontractors and produce more quality eyewear products.

### *Address resources constraints for business expansion*

Our current financial resources primarily comprise of cash on hand, cash generated from operations and bank borrowings. As at 31 December 2018, our Group had bank and cash balances of approximately HK\$17.9 million and bank borrowings of HK\$44.6 million. In addition, as at 30 April 2019, our Group had banking facilities of approximately HK\$72.4 million, of which approximately HK\$34.1 million (representing approximately 47.1%) of such banking facilities were utilised. However, the unutilised banking facilities are reserved mainly for trading purpose to ensure that we have sufficient working capital buffer to support our general operations. Furthermore, the relevant banks have restricted the intended use of the banking facilities rendering the purpose of the banking facilities incompatible with the expansion plan of our Group. As such, our Directors are of the view that our existing financial resources might not be sufficient to finance our Group's business plan as set out in the paragraph headed "Implementation Plan" in this section (which requires approximately HK\$72.7 million (excluding the repayment of our bank borrowings and general working capital)). The net proceeds from the Share Offer would therefore provide us with the necessary capital to implement our expansion plans so as to grasp the opportunities in the growing eyewear market, while without exerting undue pressure on our liquidity and cash position which may otherwise prejudice our daily operations.

### *Maintain cash liquidity for operations*

Our operations and business model are capital intensive. While our gross profit increased by approximately 7.7% for the year ended 31 December 2017 as compared to the corresponding period for 2016, our net cash generated from operating activities decreased from approximately HK\$54.0 million for the year ended 31 December 2016 to approximately HK\$28.4 million for the year ended 31 December 2017, and further to approximately HK\$12.3 million for the year ended 31 December 2018. It is therefore vital for us to maintain at all material times a reasonable level of working capital buffer to support our general operations, funding obligations and capital commitment.



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## FUTURE PLANS AND USE OF PROCEEDS

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In addition, while our suppliers generally grant us a credit period of 30 to 90 days, we generally give credit terms to our customers ranging from 30 to 120 days, resulting in potential cash flow mismatch during our course of operations. The extent of such cash flow mismatch is illustrated by the differences between our trade payables turnover days and trade receivables turnover days. For the years ended 31 December 2016, 2017 and 2018, our trade payables turnover days were approximately 59 days, 72 days and 62 days, respectively, while our trade receivables turnover days were approximately 75 days, 78 days and 74 days respectively. Furthermore, our trade payables as at 31 December 2016, 2017 and 2018 were approximately HK\$47.0 million, HK\$58.6 million and HK\$51.2 million, respectively, which far exceeded our bank and cash balances of HK\$28.0 million, HK\$20.4 million and HK\$17.9 million for the same year.

As at 31 December 2016, 2017 and 2018, our bank and cash balances together with our unutilised bank facilities were approximately HK\$45.7 million, HK\$34.2 million and HK\$47.8 million, whereby our theoretical average monthly operating expenses (calculated by the sum of cost of sales, selling and distribution expenses, administrative expenses) were approximately HK\$22.5 million, HK\$26.9 million and HK\$32.3 million, respectively for the corresponding year. For illustrative purpose only, our bank and cash balances together with our unutilised bank facilities were only sufficient for approximately 2.0 months, 1.3 months and 1.5 months, respectively for the three years ended 31 December 2018.

Hence, we believe that our bank and cash balances should be reserved for operational use and without the additional funding from the Share Offer, our existing financial resources would only be sufficient to cover our current business model, and may not be sufficient to finance our expansion plans for implementing our business strategies disclosed in this prospectus, which require substantial capital investment.

### *Reduce reliance on debt financing to promote healthy and sustainable expansion of our Group*

We have devised a long-term expansion plan as disclosed in this prospectus which requires on-going and stable funding. As at 31 December 2018, our bank borrowings amounted to approximately HK\$44.6 million, of which approximately HK\$22.9 million (representing approximately 51.3% of our bank borrowings) were short-term loans repayable within one year. Furthermore, among the other portion of bank borrowings that are due for repayment after one year, approximately HK\$21.7 million of such bank borrowings were subject to repayment on demand clause. There is no guarantee that we will be able to continuously renew our short-term loans to finance our long-term expansion plans, or that the relevant banks would not demand early or immediate repayment of our mid- and long-term loans despite no default on our part. The short tenor and the risk of repayment on demand of bank loans would therefore render our bank loans not appropriate to fulfil the funding needs for our long-term expansion plan.

Furthermore, the relevant banks have imposed restrictions on the intended use of banking facilities, resulting in a mismatch between our funding needs and the permitted usage of banking facilities. The relevant banks are entitled to, at their sole discretion at any time, cancel all or any part of the unutilised banking facilities, or demand early repayment of any amount outstanding under the banking facilities. Any reliance on banking facilities to finance our business plans may therefore also subject our long-term expansion plan to adverse finance risks.



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## FUTURE PLANS AND USE OF PROCEEDS

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Besides, debt financing would incur long-term interest expenses and would be reflected in our financial statements which would affect our financial positioning. For the years ended 31 December 2016, 2017 and 2018, our finance expenses (representing interest on bank borrowings, finance lease charges and interest on factoring of trade receivables) amounted to approximately HK\$0.7 million, HK\$1.1 million and HK\$2.1 million, respectively. Moreover, as at 31 December 2016, 2017 and 2018, (i) our current liabilities due to bank borrowings amounted to approximately HK\$22.9 million, HK\$24.7 million and HK\$44.6 million respectively; and (ii) our gearing ratio amounted to approximately 30.3%, 17.6% and 46.3%, respectively.

Our Directors believe equity financing is beneficial to the long term development of our the Group for the following reasons.

- (i) the finance costs of debt financing would result in interest expenses and accordingly increase our Group's gearing ratio, hence resulting in our Group having less attractive financing terms offered by banks and other financial institutions, as well as being rated less favourably by our customers and suppliers when they assess our financial condition;
- (ii) equity financing would not require us to retain a portion of its business income for loan repayment and it gives us greater flexibility and capability for business development and dividend payment to create greater value for Shareholders;
- (iii) there has been market speculation that the interest rates in the major financial markets around the globe is set to rise and the use of debt financing for a relatively significant amount and the subsequent renewal of debts will subject our Group the risk of increasing financing costs;
- (iv) debt financing and equity financing are not mutually exclusive, and we may have a better position to bargain for more favourable terms from debt financiers in the event we become a listed company and enjoy a larger equity base.

In light of the above, our Directors are of the view that using equity financing (which does not involve recurring interest expenses and funds raised through equity financing is a committed source of capital without maturity and poised to be utilised anytime) instead of debt financing to fund our future growth and finance our business plan would ensure more stable and healthy expansion of our Group in the long run as it would place less undue financial burden on us in terms of cash flow.

*Difficult to obtain further bank borrowings without reliance on personal guarantees or other collaterals provided by our Controlling Shareholders*

All of our bank borrowings and banking facilities are guaranteed by personal guarantees provided by our Controlling Shareholders and Directors. Our Controlling Shareholders have also charged their own properties to secure certain portion of the bank loans obtained by our Group. As a private group of companies, our Directors reasonably believe that it is relatively impracticable for us to obtain significant bank borrowings at commercially justifiable terms, or at all, without heavy reliance on personal guarantees and/or other form of collaterals provided by our Controlling Shareholders.

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## FUTURE PLANS AND USE OF PROCEEDS

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Given our limited internal resources, it is anticipated that if we were to rely on bank borrowings to fund our operation and expansion, we would need to substantially increase our borrowings and such borrowings to our Group would inevitably require our shareholders to provide guarantees and collaterals as securities if our Company was not listed. A listing status would hence not only allow us to obtain bank borrowings at better financing terms as compared to those offered to private companies, but also enable us to have the personal guarantees and securities provided by our Controlling Shareholders and Directors released and be replaced by corporate guarantees provided by our Company. This would be conducive to our strategy of achieving financial independence and healthy and sustainable business growth.

### *Retain our experienced staff and attract new staff*

Our Directors are of the view that retaining our experienced and professional staff and attracting competent new staff are crucial in maintaining our competitiveness in the eyewear industry. If our Group obtains the Listing status, our Directors believe that it will allow us to better attract talented professionals and staff to join our Group and further improve the management and operation of our Group via the knowledge and experience that these professionals and staff bring along. The Listing status will also facilitate in-house talent management, retention and development, whereby existing staff may be motivated to further develop their career with us in view of the prestige associated with working for an employer which is listed on the Stock Exchange.

The Listing will also enable our Group to incentivise our management personnel and other employees by way of offering an equity-based incentive programme (for instance the Share Option Scheme) to our employees that more directly correlates to their performance. We have adopted the Share Option Scheme which will be effective upon Listing, the principal terms of which are set out in the section headed “E. Share Option Scheme” in Appendix V to this prospectus. We would therefore be in a better position to motivate our employees using the Shares as a means of reward and to create a team of eager and enthusiastic staff with incentive programs that are closely aligned with the objective of creating value for our Shareholders.

### *Other commercial reasons for Listing*

Our Directors believe that the Share Offer will be beneficial to our Company and its Shareholders as a whole, notwithstanding the expenses involved in the Share Offer process and the dilution effect to the Controlling Shareholders, taking into consideration of the reasons below:

- a listing status on the Stock Exchange is a complementary way of advertising our Group which reinforces our corporate profile and market recognition;
- our creditworthiness will be enhanced from our suppliers’ perspective, which may in turn allow our Group to have greater bargaining power over negotiations for trade and credit terms in the future; and
- more stringent internal control and corporate governance culture could be instilled through the Share Offer process and continuous compliance with the Listing Rules requirements.

## FUTURE PLANS AND USE OF PROCEEDS

The possible use of proceeds outlined below may change in light of our evolving business needs and conditions and management requirements. In the event of any material modification to the use of proceeds as described below, we will issue announcement and make disclosure in our interim report and/or annual report for the relevant period as required by the Stock Exchange.

In respect of net proceeds from the Share Offer which are not immediately required for the above purpose as set out in the paragraph headed “Implementation plans” in this section, it is the present intention of our Directors that such proceeds will be placed on short-term interest bearing deposits with authorised financial institutions.

### Use of proceeds

Our Directors estimate that the net proceeds from the Share Offer (after deducting estimated expenses borne by our Company in connection with the Share Offer will be HK\$93.2 million based on an Offer Price of HK\$1.1 per Offer Share (being the mid-point of the indicative Offer Price range between HK\$1.0 and HK\$1.2 per Offer Share). We intend that the net proceeds will be applied as follows:

	From the Latest Practicable Date to 31 December 2019 (HK\$'000)	For the six months ending 30 June 2020 (HK\$'000)	For the six months ending 31 December 2020 (HK\$'000)	For the six months ending 30 June 2021 (HK\$'000)	Total (HK\$'000)	Approximate Percentage (%)
Strengthen our production capacity	6,814	18,344	20,344	4,826	50,328	54.0
Repay our bank borrowings	14,446	–	–	–	14,446	15.5
Promote corporate image and brand building	2,862	2,613	2,313	2,464	10,252	11.0
Enhance design and development capabilities	3,773	1,805	1,405	1,405	8,388	9.0
Enhance quality assurance capabilities	1,365	939	939	951	4,194	4.5
General working capital	1,398	1,398	1,398	1,398	5,592	6.0
Total	30,658	25,099	26,399	11,044	93,200	100.0

We intend to apply the net proceeds from the Share Offer for the purposes and in the amounts set out below:

- HK\$50.3 million, representing approximately 54.0% of the net proceeds from the Share Offer, to be used to strengthen our production capacity, among which:
  - HK\$11.5 million, representing approximately 12.3% of the net proceeds from the Share Offer, will be used to upgrade the level of automation in our manufacturing process in Shenzhen Production Base;

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## FUTURE PLANS AND USE OF PROCEEDS

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- HK\$36.6 million, representing approximately 39.3% of the net proceeds from the Share Offer, will be used to expand the production capacity of our Jiangxi Production Base; and
  - HK\$2.2 million, representing approximately 2.4% of the net proceeds from the Share Offer, will be used to upgrade our ERP system.
- HK\$14.4 million, representing approximately 15.5% of the net proceeds from the Share Offer, to be used to repay our bank borrowings of (i) an outstanding amount of approximately HK\$3.0 million with interest rate of 2.5% per annum below prime rate or 1.0% per annum over one month HIBOR, whichever is lower and will mature in June 2025; (ii) an outstanding amount of approximately HK\$2.4 million and HK\$2.8 million which will mature in October 2020 and January 2021, respectively, both with interest rate of 1.25% below prime rate; (iii) an outstanding amount of approximately HK\$3.5 million with interest rate of 1.25% per annum over the respective bank's cost of funding which will mature in June 2025; and (iv) an outstanding amount of approximately HK\$4.3 million with interest rate of 1.25% per annum below prime rate which will mature in August 2020.
- HK\$10.3 million, representing approximately 11.0% of the net proceeds from the Share Offer, to be used to promote our corporate image and brand building, among which:
  - HK\$8.0 million, representing approximately 8.6% of the net proceeds from the Share Offer will be used for marketing efforts to enhance our corporate image and brand awareness; and
  - HK\$2.3 million, representing approximately 2.4% of the net proceeds from the Share Offer will be used for hiring additional sales and marketing staff.
- HK\$8.4 million, representing approximately 9.0% of the net proceeds from the Share Offer, to be used to enhance our design and development capabilities, among which:
  - HK\$3.6 million, representing approximately 3.9% of the net proceeds from the Share Offer, will be used to set up our design laboratory with showroom in Hong Kong;
  - HK\$3.5 million, representing approximately 3.8% of the net proceeds of the Share Offer, will be used to recruit additional staff in the product design and development team;
  - HK\$1.0 million, representing approximately 1.0% of the net proceeds of the Share Offer, will be used to upgrade our design software and hardware; and
  - HK\$0.3 million, representing 0.3% of the net proceeds of the Share Offer, will be used for training and providing development opportunities for our design staff.
- HK\$4.2 million, representing 4.5% of the net proceeds of the Share Offer, to be used to enhance our quality assurance capabilities, among which:

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## FUTURE PLANS AND USE OF PROCEEDS

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- HK\$1.4 million, representing 1.5% of the net proceeds of the Share Offer, will be used to upgrade our quality assurance equipment;
  - HK\$2.5 million, representing 2.7% of the net proceeds of the Share Offer, will be used to expand our quality assurance team; and
  - HK\$0.3 million, representing 0.3% of the net proceeds of the Share Offer, will be used to provide training for our quality assurance staff.
- HK\$5.6 million, representing 6.0% of the net proceeds of the Share Offer, to be used for general working capital purposes.

In the event that the Offer Price is set at the high-end or the low-end of the proposed Offer Price range, the net proceeds from the Share Offer will increase or decrease by HK\$1.3 million, after deducting related expenses, respectively. We intend to use the net proceeds based on the percentages disclosed above, regardless of whether the Offer Shares are priced at the high-end or low-end of the proposed Offer Price.

### IMPLEMENTATION PLANS

Our implementation plans are set forth below for the period from the Latest Practicable Date to 30 June 2021. Investors should note that the following implementation plans are formulated on the bases and assumptions referred to in the paragraph headed “Bases and Key Assumptions” below. These bases and assumptions are inherently subject to uncertainties and unpredictable factors, in particular the risk factors set forth in the section headed “Risk Factors” in this prospectus. Our actual course of business may vary from our business strategies set out in this prospectus. There is no assurance that our plans will materialise in accordance with our expected time frame or that our objectives will be accomplished. While the actual course of events may invariably encounter unforeseeable changes and fluctuations, we shall use our best endeavours to anticipate changes, yet allowing for flexibility to implement the following plans. In the event of any material modifications to the use of proceeds as described above, we will issue announcement in accordance with the Listing Rules and disclose in our annual report for the relevant year as required by the Stock Exchange.

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## FUTURE PLANS AND USE OF PROCEEDS

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### From the Latest Practicable Date to 31 December 2019

<u>Business strategies</u>	<u>Implementation plans</u>	<u>Use of proceeds (HK\$'000)</u>
Strengthen our production capacity	Shenzhen Production Base	
	– purchase automated machineries, equipment and office supplies, and recruit production manager and engineers	2,128
	Jiangxi Production Base	
	– purchase automated machineries, equipment and office supplies, and recruit production manager and engineers	3,216
	– progress payment for construction of the New Building	1,000
	ERP System	
	– upgrade ERP system and recruit information technology manager and technicians	470
		6,814
Repay our bank borrowings	– repay three term loans with a bank in Hong Kong with outstanding amount of approximately HK\$3.0 million, HK\$5.2 million and HK\$4.3 million, respectively	14,446
	– repay a term loan with another bank in Hong Kong with outstanding amount of approximately HK\$3.5 million	
Promote corporate image and brand building	– participate in industry-related exhibitions in Europe, the United States and Hong Kong	1,500
	– general marketing and promotion activities	792
	– recruit additional sales and marketing staff	570
		2,862
Enhance design and development capabilities	– set up our design laboratory and showroom in Hong Kong	2,328
	– recruit and train additional staff for our product design and development team	945
	– upgrade design software and hardware	500
		3,773

## FUTURE PLANS AND USE OF PROCEEDS

<u>Business strategies</u>	<u>Implementation plans</u>	<u>Use of proceeds (HK\$'000)</u>
Enhance quality assurance capabilities	– purchase quality assurance tools and equipment	710
	– recruit and train additional quality assurance staff	655
		<hr/> 1,365
General working capital		<hr/> 1,398
<b>Total</b>		<hr/> <b>30,658</b> <hr/>

### For the six months ending 30 June 2020

<u>Business strategies</u>	<u>Implementation plans</u>	<u>Use of proceeds (HK\$'000)</u>
Strengthen our production capacity	Shenzhen Production Base	
	– purchase automated machineries, equipment and office supplies, pay remuneration for production manager and engineers	4,200
	Jiangxi Production Base	
	– purchase automated machineries, equipment and office supplies, pay remuneration for production manager and engineers	10,424
	– progress payment for construction of the New Building	3,000
	ERP System	
	– upgrade ERP system and pay remuneration for information technology manager and technicians	720
		<hr/> 18,344
Promote corporate image and brand building	– participate in industry-related exhibitions in Europe, the United States and Hong Kong	1,500
	– general marketing and promotion activities	543
	– pay remuneration for new sales and marketing staff	570
		<hr/> 2,613

## FUTURE PLANS AND USE OF PROCEEDS

<u>Business strategies</u>	<u>Implementation plans</u>	<u>Use of proceeds (HK\$'000)</u>
Enhance design and development capabilities	<ul style="list-style-type: none"> <li>– pay rental and related costs for the design laboratory and showroom in Hong Kong</li> <li>– pay remuneration for and train new product design and development staff</li> <li>– upgrade design software and hardware</li> </ul>	<div style="text-align: right;">610</div> <div style="text-align: right;">945</div> <div style="text-align: right;">250</div> <div style="text-align: right; border-top: 1px solid black;">1,805</div>
Enhance quality assurance capabilities	<ul style="list-style-type: none"> <li>– purchase quality assurance tools and equipment</li> <li>– pay remuneration for and train new quality assurance staff</li> </ul>	<div style="text-align: right;">284</div> <div style="text-align: right;">655</div> <div style="text-align: right; border-top: 1px solid black;">939</div>
General working capital		1,398
<b>Total</b>		<b>25,099</b>

### For the six months ending 31 December 2020

<u>Business strategies</u>	<u>Implementation plans</u>	<u>Use of proceeds (HK\$'000)</u>
Strengthen our production capacity	<p>Shenzhen Production Base</p> <ul style="list-style-type: none"> <li>– purchase automated machineries and equipment, pay remuneration for production manager and engineers</li> </ul> <p>Jiangxi Production Base</p> <ul style="list-style-type: none"> <li>– progress payment for construction of the New Building</li> <li>– purchase automated machineries and equipment, pay remuneration for production manager and engineers</li> </ul> <p>ERP System</p> <ul style="list-style-type: none"> <li>– upgrade ERP system and pay remuneration for information technology manager and technicians</li> </ul>	<div style="text-align: right;">3,800</div> <div style="text-align: right;">6,000</div> <div style="text-align: right;">10,024</div> <div style="text-align: right;">520</div> <div style="text-align: right; border-top: 1px solid black;">20,344</div>



## FUTURE PLANS AND USE OF PROCEEDS

Business strategies	Implementation plans	Use of proceeds (HK\$'000)
Promote corporate image and brand building	<ul style="list-style-type: none"> <li>– participate in industry-related exhibitions in Europe, the United States and Hong Kong</li> <li>– general marketing and promotion activities</li> <li>– pay remuneration for new sales and marketing staff</li> </ul>	<div style="text-align: right;">1,500</div> <div style="text-align: right;">243</div> <div style="text-align: right;">570</div> <hr style="width: 100%;"/> <div style="text-align: right;">2,313</div>
Enhance design and development capabilities	<ul style="list-style-type: none"> <li>– pay rental and related costs for the design laboratory and showroom in Hong Kong</li> <li>– pay remuneration for and train new product design and development staff</li> <li>– upgrade design software and hardware</li> </ul>	<div style="text-align: right;">360</div> <div style="text-align: right;">945</div> <div style="text-align: right;">100</div> <hr style="width: 100%;"/> <div style="text-align: right;">1,405</div>
Enhance quality assurance capabilities	<ul style="list-style-type: none"> <li>– purchase quality assurance tools and equipment</li> <li>– pay remuneration for and train new quality assurance staff</li> </ul>	<div style="text-align: right;">284</div> <div style="text-align: right;">655</div> <hr style="width: 100%;"/> <div style="text-align: right;">939</div>
General working capital		<hr style="width: 100%;"/> <div style="text-align: right;">1,398</div>
<b>Total</b>		<hr style="width: 100%;"/> <div style="text-align: right;"><b>26,399</b></div> <hr style="width: 100%;"/>

### For the six months ending 30 June 2021

Business strategies	Implementation plans	Use of proceeds (HK\$'000)
Strengthen our production capacity	<p>Shenzhen Production Base</p> <ul style="list-style-type: none"> <li>– purchase automated machineries and equipment, pay remuneration for production manager and engineers</li> </ul> <p>Jiangxi Production Base</p> <ul style="list-style-type: none"> <li>– purchase automated machineries and equipment, pay remuneration for production manager and engineers</li> </ul> <p>ERP System</p> <ul style="list-style-type: none"> <li>– upgrade ERP system and pay remuneration for information technology manager and technicians</li> </ul>	<div style="text-align: right;">1,400</div> <div style="text-align: right;">2,956</div> <div style="text-align: right;">470</div> <hr style="width: 100%;"/> <div style="text-align: right;">4,826</div>

## FUTURE PLANS AND USE OF PROCEEDS

<b>Business strategies</b>	<b>Implementation plans</b>	<b>Use of proceeds (HK\$'000)</b>
Promote corporate image and brand building	<ul style="list-style-type: none"> <li>– participate in industry-related exhibitions in Europe, the United States and Hong Kong</li> <li>– general marketing and promotion activities</li> <li>– pay remuneration for new sales and marketing staff</li> </ul>	<div style="text-align: right;">1,500</div> <div style="text-align: right;">394</div> <div style="text-align: right;">570</div> <hr style="width: 100%;"/> <div style="text-align: right;">2,464</div>
Enhance design and development capabilities	<ul style="list-style-type: none"> <li>– pay rental and related costs for the design laboratory and showroom in Hong Kong</li> <li>– pay remuneration for and train new product design and development staff</li> <li>– upgrade design software and hardware</li> </ul>	<div style="text-align: right;">360</div> <div style="text-align: right;">945</div> <div style="text-align: right;">100</div> <hr style="width: 100%;"/> <div style="text-align: right;">1,405</div>
Enhance quality assurance capabilities	<ul style="list-style-type: none"> <li>– purchase quality assurance tools and equipment</li> <li>– pay remuneration for and train new quality assurance staff</li> </ul>	<div style="text-align: right;">142</div> <div style="text-align: right;">809</div> <hr style="width: 100%;"/> <div style="text-align: right;">951</div>
General working capital		1,398
<b>Total</b>		<b>11,044</b>

### BASES AND KEY ASSUMPTIONS

We have adopted the following principal assumptions in the preparation of the above future plans:

- there will be no material adverse change in the existing government policies or political, legal, fiscal, market or economic conditions in the PRC and Hong Kong;
- there will be no material changes in legislation or regulations or rules in the operating regions which will adversely affect the business of our Group;
- there will be no material change in the bases (such as inflation, interest rate and foreign exchange rate) or rates of taxation and duties in the PRC and Hong Kong or in any other places in which any member of our Group operates or will operate or is incorporated;
- we will have sufficient financial resources to meet the planned capital and business development requirements during the period to which the business objective relates;
- the respective offering financial institutions will not withdraw any of the existing available facilities;

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## FUTURE PLANS AND USE OF PROCEEDS

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- there will be no material change in the interest rate of our bank borrowings;
- there will be no change to the existing accounting policies from those stated in the consolidated audited financial statements of our Group for the Track Record Period;
- the Share Offer will be completed in accordance with and as described in the section headed “Structure and Conditions of the Share Offer” in this prospectus;
- there will be no Share buy-back;
- the listing expenses will be settled in accordance with the payment schedules as stated in the respective mandates with professional parties;
- our Directors and key senior management will continue to be involved in the development of our existing and future development and we will be able to retain our key management personnel;
- we will be able to recruit additional key management personnel and staff when required;
- the payments of staff costs, property rentals and related expenses, and other operating expenses are assumed to be made in the month in which they are incurred;
- there will be no change in the effectiveness of the certifications, licenses, permits or approvals obtained by our Group;
- there will be no change in the funding requirement for the business strategies described in this prospectus from the amount as estimated by our Directors;
- our Group’s operations will not be adversely affected by interruptions or labour disputes, for reasons that are beyond the control of our Directors;
- we will not be materially and adversely affected by the risk factors as set out in the section headed “Risk Factors” in this prospectus;
- there be no disasters, natural, political or otherwise, which would materially disrupt the business or operations of our Group or cause substantial loss, damage or destruction to its properties or facilities;
- there will not be material changes in the market demand and the competitive landscape of eyewear industry;
- our Group is able to retain our major customers and suppliers;
- there will be no change to the credit terms granted to customers and trade receivables turnover days is expected to remain stable; and

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## **FUTURE PLANS AND USE OF PROCEEDS**

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- we will be able to continue our operations in substantially the same manner as we have been operating during the Track Record Period.

These bases and assumptions are inherently subject to many uncertainties, variables, and unpredictable factors, in particular the risk factors set forth in the section headed “Risk Factors” in this document. There can be no assurance that our plans will materialise in accordance with the expected time frame or that the objectives of our Group will be accomplished at all.

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## UNDERWRITING

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### UNDERWRITERS

#### **Joint Bookrunners**

Cinda International Capital Limited  
Head & Shoulders Securities Limited

#### **Joint Lead Managers**

Cinda International Capital Limited  
Head & Shoulders Securities Limited  
I Win Securities Limited  
Sinomax Securities Limited

#### **Co-Lead Managers**

Alpha Financial Group Limited  
Yuzhou Financial Holdings Limited

#### **Public Offer Underwriters**

Cinda International Capital Limited  
Head & Shoulders Securities Limited

### UNDERWRITING ARRANGEMENTS AND EXPENSES

#### **The Public Offer**

##### ***Public Offer Underwriting Agreement***

Pursuant to the Public Offer Underwriting Agreement, our Company has agreed to offer the Public Offer Shares for subscription by the public in Hong Kong on and subject to the terms and conditions of this prospectus and the Application Forms. Subject to, among other conditions, the granting of the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus (including the additional Shares to be issued pursuant to the Capitalisation Issue and pursuant to the exercise of the options which may be granted under the Share Option Scheme) by the Listing Division and to certain other conditions set out in the Public Offer Underwriting Agreement, the Public Offer Underwriters have severally but not jointly agreed to subscribe or procure subscribers for their respective applicable proportions of the Public Offer Shares now being offered which are not taken up under the Public Offer on the terms and conditions of this prospectus, the Application Forms and the Public Offer Underwriting Agreement.

The Public Offer Underwriting Agreement is conditional on and subject to the Placing Underwriting Agreement having been signed and becoming unconditional and not having been terminated in accordance with its terms.

##### ***Grounds for termination***

The Sole Sponsor and the Joint Bookrunners (for themselves and on behalf of the Public Offer Underwriters) shall have the absolute right upon giving a written notice to our Company (on behalf of the other parties thereto other than the Public Offer Underwriters and the Sole Sponsor) to terminate the Public Offer Underwriting Agreement if any of the following events occur at any time prior to 8:00 a.m. on the Listing Date (which is expected to be on Tuesday, 16 July 2019):

- (a) there has come to the notice of the Sole Sponsor, the Joint Bookrunners, any Public Offer Underwriters:
  - (i) that any statement contained in this prospectus, any supplemental offering materials, press announcement, the formal notice to be issued on Monday, 15 July 2019 by the Company substantially in the agreed form pursuant to the Listing Rules, the road show materials and any other document published or issued by or on behalf of the

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## UNDERWRITING

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Company, the Sole Sponsor, the Joint Bookrunners or the Joint Lead Managers for the purpose of or in connection with the Share Offer, considered by the Sole Sponsor, the Joint Bookrunners and/or the Joint Lead Managers in their sole and absolute discretion, was when the same was issued, or has become, untrue, incorrect or misleading in any material respect; or

- (ii) that any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of this prospectus, constitute a material omission therefrom considered by the Sole Sponsor, the Joint Bookrunners and/or the Joint Lead Managers in their sole and absolute discretion to be material to the Share Offer; or
- (iii) any material breach of any of the obligations imposed upon any party to the Public Offer Underwriting Agreement (other than on the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers and the Public Offer Underwriters) as determined by the Sole Sponsor, the Joint Bookrunners and/or the Joint Lead Managers in their sole and absolute discretion; or
- (iv) any material adverse change or development involving a prospective material change (whether or not permanent) in the business affairs, prospects or the financial or trading position of the Group; or
- (v) any material breach of any of the representations, warranties, agreements and undertakings given by the Company, the executive Directors, the Controlling Shareholders (the “**Warranties**”) under the Public Offer Underwriting Agreement, as determined by the Sole Sponsor, the Joint Bookrunners and/or the Joint Lead Managers in their sole and absolute discretion; or
- (vi) any of the Warranties under the Public Offer Underwriting Agreement is untrue, inaccurate, misleading or breached in any material respect when given or repeated as determined by the Sole Sponsor, the Joint Bookrunners and/or the Joint Lead Managers in their sole and absolute discretion; or
- (vii) approval by the Listing Division of the Stock Exchange for the listing of, and permission to deal in, the Shares in issue and the Shares in issue and to be issued pursuant to the Share Offer and the Capitalisation Issue on the Main Board and the Shares which may be allotted and issued pursuant to the exercise of any options which may be granted under the Share Option Scheme is refused or not granted, other than subject to customary conditions, on or before the Listing Date, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or
- (viii) that any of the experts described under “Statutory and General Information – F. Other information – 6. Qualifications of experts” in Appendix V to this prospectus, has withdrawn its respective consent to the issue of this prospectus with the inclusion of its reports, letters, summaries of valuations and/or legal opinions (as the case may be) and reference to its name included in the form and context in which it respectively appears; or

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## UNDERWRITING

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- (b) there shall develop, occur, exist, continue to exist or come into effect:
- (i) any event or series of events of force majeure providing any Relevant jurisdiction (as defined in (ii) below), beyond the control of the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers or the Public Offer Underwriters (including, without limitation, acts of government, strikes, lock-outs, fire, explosion, flooding, civil commotion, war, threat of war, acts of God, acts of terrorism, riot, public disorder, economic sanctions, outbreak of diseases or epidemics including SARS and avian influenza and such related/mutated forms or interruption or delay in transportation); or
  - (ii) any adverse change or development involving a prospective change, or any event or series of events currently in existence or otherwise, likely to result in any change or development (whether or not permanent) in local, national, regional or international, economic, currency, legal, exchange control, political, military, fiscal or regulatory conditions, circumstances or matters and/or disaster or any monetary or trading settlement systems in or affecting Hong Kong, the PRC, the Cayman Islands, the BVI, the United States, the United Kingdom, the European Union (or any member thereof), or any other jurisdiction relevant to any member of the Group (collectively, the **“Relevant Jurisdictions”**, each a **“Relevant Jurisdiction”**) (including any moratorium, suspension or material restriction on trading in securities generally on the Stock Exchange, the New York Stock Exchange, the NASDAQ National Market, London Stock Exchange or any of the stock exchanges in the PRC, or a material fluctuation in the exchange rate of Hong Kong dollars against any foreign currency, or any interruption in securities settlement or clearance service or procedures in the Relevant Jurisdictions or anywhere in the world); or
  - (iii) any new publicly available laws, rules, regulations, guidelines, opinions, notices, circulars, orders, judgments, decrees or rulings (the **“Relevant Laws”**) of any court, government, governmental or regulatory authority or any other any public, regulatory, taxing, administrative or governmental, agency or authority, any self-regulatory organisation or any securities exchange authority, other authority and any court at the national, provincial, municipal or local level of the Relevant Jurisdictions (**“Government Authority”**) or policy or directive or change (whether or not forming part of a series of changes) or development in existing Relevant Laws or policy or directive or in the interpretation or application thereof by any court or Government Authority or other competent authority in the Relevant Jurisdictions; or
  - (iv) the imposition of economic or other sanctions, in whatever form, directly or indirectly, by, the Relevant Jurisdictions or any other country or organisation on the Relevant Jurisdictions; or
  - (v) a change or development occurs involving a prospective material change in taxation or exchange control (or the implementation of any exchange control) or foreign investment regulations in the Relevant Jurisdictions; or

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## UNDERWRITING

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- (vi) any change or development involving a prospective change, or a materialisation of, any of the risks set forth in the section headed “Risk Factors” in this prospectus; or
- (vii) any litigation or claim of material importance of any third party being threatened or instigated against any member of the Group; or
- (viii) any valid demand by any creditor for repayment or payment of any indebtedness of any member of the Group or in respect of which any member of the Group is liable prior to its stated maturity; or
- (ix) any material loss or damage sustained by any member of the Group (howsoever caused and whether or not the subject of any insurance or claim against any person); or
- (x) a petition is presented for the winding up or liquidation of any member of the Group or any member of the Group makes any composition or arrangement with its creditors or enters into a scheme of arrangement or any resolution is passed for the winding-up of any member of the Group or a provisional liquidator, receiver or manager is appointed to take over all or part of the assets or undertaking of any member of the Group or anything analogous thereto occurs in respect of any member of the Group; or
- (xi) any general moratorium on commercial banking activities in Hong Kong (imposed by the Financial Secretary of Hong Kong and/or the Hong Kong Monetary Authority or other competent authority) or the Relevant Jurisdictions; or
- (xii) any local, national, regional or international outbreak or escalation of hostilities (whether or not war is or has been declared) or other state of emergency or crisis involving or affecting the Relevant Jurisdictions; or
- (xiii) there is a change in the system under which the value of the HK\$ is linked to that of the US dollar or a devaluation of the HK\$ or Renminbi against any foreign currencies; or
- (xiv) the commencement by any judicial, regulatory, governmental or political body or organisation of any action, claim or proceedings against any Director or an announcement by any judicial, regulatory, governmental or political body or organisation that it intends to take any such action; or
- (xv) save as disclosed in this prospectus, a demand by any tax authority for payment for any tax liability for any member of the Group; or
- (xvi) a Director being charged with an indictable offence or prohibited by operation of law or otherwise disqualified from taking part in the management of a company, or the chairman or chief executive officer of the Company vacating his office; or



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## UNDERWRITING

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- (xvii) any local, national, regional or international outbreak or escalation of hostilities (whether or not war is or has been declared) or other state of emergency or calamity or crisis in or affecting any Relevant Jurisdiction; or
- (xviii) save as disclosed in this prospectus, a contravention by any member of the Group of the Listing Rules or any applicable laws or regulations in the Cayman Islands, Hong Kong and the BVI; or
- (xix) a prohibition on the Company for whatever reason from allotting and issuing the Offer Shares (including any Shares to be issued pursuant to the exercise of the options to be granted under the Share Option Scheme); or
- (xx) other than with the approval of the Joint Bookrunners, the issue or requirement to issue by the Company of any supplement or amendment to this prospectus (or to any other documents used in connection with the Share Offer) pursuant to the Companies (Winding Up and Miscellaneous Provisions) Ordinance or the Listing Rules or any requirement or request of the Stock Exchange and/or the SFC; or
- (xxi) any event, act or omission which gives rise to or is likely to give rise to any liability of any of the Company, the executive Directors and the Controlling Shareholders pursuant to the indemnity contained in the Public Offer Underwriting Agreement; or
- (xxii) any non-compliance with Relevant Law(s) by the Company with respect to any matters relating to the Share Offer, the Offer Shares, the Listing and/or any other related matters,

which in the sole and absolute opinion of the Sole Sponsor, the Joint Bookrunners (for themselves and on behalf of the Underwriters), and/or the Joint Lead Managers (1) is or shall have a material adverse change, or any development involving a prospective material adverse change, in the financial or operational condition or in the earnings, management, prospects, assets or liabilities of any member of the Group, whether or not arising in the ordinary course of business (“**Material Adverse Effect**”); or (2) has or shall have a Material Adverse Effect on the success, marketability or pricing of the Share Offer or the level of interest under the Share Offer; or (3) is or will or may make it inadvisable, inexpedient, impracticable or not commercially viable (i) for the Share Offer to proceed or (ii) for any material part of the Public Offer Underwriting Agreement to be performed or implemented as envisaged or (4) having any material non-compliance incident in respect of the Share Offer and/or the Listing, with consideration of Relevant Law(s).

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## UNDERWRITING

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### Undertakings to the Stock Exchange

#### *Undertakings by our Company*

Pursuant to Rule 10.08 of the Listing Rules, our Company undertakes to the Stock Exchange that save as pursuant to the Share Offer (including the grant and exercise of the options under the Share Option Scheme), no further Shares or securities convertible into equity securities of our Company (whether or not of a class already listed) will be issued by us, or form the subject of any agreement by us to such an issue, within six months from the Listing Date (whether or not such issue of Shares or securities will be completed within six months from the commencement of dealings), except pursuant to the Placing, any exercise of the options which may be granted under the Share Option Scheme or any of the circumstances permitted pursuant to Rules 10.08 of the Listing Rules.

#### *Undertakings by our Controlling Shareholders*

Each of the Controlling Shareholders undertakes to our Company, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Co-Lead Managers, the Underwriters and the Stock Exchange that, except pursuant to the Share Offer (including the grant and exercise of the options under the Share Option Scheme) and for the circumstances permitted pursuant to Rule 10.07 of the Listing Rules, he/she/it shall not, and shall procure that the relevant registered holder(s) of the Shares shall not,

- (a) within the period commencing on the date by reference to which disclosure of his/its shareholding in our Company is made in this prospectus and ending on the date which is six months from the Listing Date (the “**First Six-Month Period**”), dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares in respect of which he/she/it is shown by this prospectus to be the beneficial owner; and
- (b) within the period of six months commencing on the date on which the First Six-Month Period expires (the “**Second Six-Month Period**”), dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares referred to in (a) above if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, he/she/it would cease to be a Controlling Shareholder.

Each of the Controlling Shareholders further irrevocably undertakes and covenants with our Company, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Co-Lead Managers, the Public Offer Underwriters and the Stock Exchange that he/she/it shall, and shall procure that the relevant registered holder(s) shall,

- (a) in the event that he/it pledges or charges any direct or indirect interest in the Shares pursuant to a pledge or charge in favour of an authorised institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) under Note 3 to Rule 10.07(2) of the Listing Rules, at any time during and ending on the expiry of the Second Six-Month Period, inform our Company immediately thereafter; and

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## UNDERWRITING

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- (b) having pledged or charged any interest in the Shares under (a) above, inform our Company immediately in the event that he/she/it becomes aware that the pledgee or chargee has disposed of or intends to dispose of such interest and of the number of Shares affected.

In the event that our Company has been informed of any above matters (if any), we shall forthwith publish an announcement giving details of the same in accordance with the requirements of Rule 2.07C of the Listing Rules.

### **Undertakings pursuant to the Public Offer Underwriting Agreement**

#### ***Undertakings by our Company***

Our Company irrevocably undertakes to and covenants with each of the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers and the Public Offer Underwriters, and each of the Controlling Shareholders and the executive Directors undertakes to and covenants with the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Co-Lead Managers, and the Public Offer Underwriters to procure that, during the First Six-Month Period, save with the prior written consent of the Sole Sponsor, the Joint Bookrunners (for themselves and on behalf of the Public Offer Underwriters and the Sole Sponsor), the Joint Lead Managers and the Co-Lead Managers and in compliance with the Listing Rules and the applicable laws, and save pursuant to the Share Offer, the Capitalisation Issue and the issue of Shares pursuant to the Share Option Scheme; or any other share option scheme of our Company adopted from time to time, our Company shall not:

- (a) at anytime during the First Six-Month Period:
  - (i) offer, allot or issue, or agree to offer, allot, issue (conditionally or unconditionally) any Shares or securities convertible into or exchangeable for equity securities of the Company (whether or not of a class already listed); or
  - (ii) grant or agree to grant (conditionally or unconditionally) any options, warrants or other rights carrying the rights to subscribe for or otherwise acquire or convertible or exchangeable into Shares or other securities of the Company (whether or not of a class already listed); or
  - (iii) enter into any transaction which is designed to, or might reasonably be expected to, result in the disposition (whether by actual disposition or effective economic disposition due to cash settlement or otherwise) by the Company or any of its affiliates, either directly or indirectly, conditionally or unconditionally, any Shares (or any interest in any Shares or any voting or other right attaching to any Shares) or any securities convertible into or exchangeable for such Shares (or any interest in any Shares or any voting or other right attaching to any Shares); or
  - (iv) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of subscription or ownership of Shares (or any interest in any Shares or any voting or other right attaching to any Shares) or securities convertible into or exchangeable for such Shares; or

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## UNDERWRITING

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- (v) buy-back any Shares or securities of the Company; or
- (vi) offer to or agree to do any of the foregoing or announce any intention to do so;
- (b) at anytime during the Second Six-Month Period do any of the acts set out in paragraph (a) above, so as to result in the Controlling Shareholders (together with any of its associates) either individually or taken together with the others of them cease to be a controlling shareholder of the Company (within the meaning of the Listing Rules);
- (c) in the event that our Company does any of the acts set out in paragraphs (a) and (b) above after the expiry of the First Six-Month Period or the Second Six-Month Period, as the case may be, take all steps to ensure that any such act, if done, shall not create a disorderly or false market for any Shares or other securities of our Company or any interest therein.

### *Undertaking by our Controlling Shareholders*

Each of the Controlling Shareholders has irrevocably undertaken to and covenanted with each of the Company, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Co-Lead Managers and the Public Offer Underwriters that, without the prior written consent of each of the Company, the Sole Sponsor, the Joint Bookrunners and the Joint Lead Managers, he/she/it shall not directly or indirectly and shall procure that none of his/her/its associates or the companies controlled by it or any nominee or trustee holding in trust for it shall

- (a) during the First Six-Month Period:
  - (i) sell, transfer or dispose of, offer to sell, contract to sell, transfer or dispose of, nor enter into any agreements to sell, transfer or dispose of or otherwise create any options, warrants, rights, interests or a mortgage, charge, pledge, lien, option, restriction, right of first refusal, security interest, claim, equity interest, right of pre-emption, third-party right or interest, or interests or rights of the same nature as the foregoing or other encumbrance or security interest of any kind, or another type of preferential arrangement (including, without limitation, retention arrangement) having similar effect (“**Encumbrances**”) (including the creation or entry into of any option, right, warrant to purchase or otherwise transfer or dispose of, or any lending, charge, pledges or encumbrances over, or by entering into any transaction which is designed to, or might reasonably be expected to, result in the disposition (whether by actual disposition or effective economic disposition due to cash settlement or otherwise) on any of the Shares (or any interest in any Shares or any voting or other right attaching to any Shares) or any other securities convertible into or exchangeable for or which carry a right to subscribe, purchase or acquire any such shares therein owned by him/her/it or any of his/her/its associates or in which it or any of his/her/its associates is, directly or indirectly, interested immediately after the completion of the Capitalisation Issue, the Share Offer and the issuance and allotment of any other Shares or securities of or interest in the Company arising or deriving therefrom as a result of capitalisation issue or scrip dividend or otherwise or enter into any swap, derivative or other arrangement that transfers to another, in whole or in part, any of the economic consequences of the acquisition or ownership of any such Shares or such securities; or

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## UNDERWRITING

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- (ii) sell, transfer or dispose of, offer to sell, contract to sell, transfer or dispose of, nor enter into any agreements to sell, transfer or dispose of or otherwise create any options, warrants, rights, interests or Encumbrances (including the creation or entry into of any agreement to create any pledge or charge or Encumbrances over, or by entering into any transaction which is designed to, or might reasonably be expected to, result in the disposition whether by actual disposition or effective economic disposition due to cash settlement or otherwise) on any shares or interest in any company controlled by him/her/it or any of his/her/its associates which is the beneficial owner (directly or indirectly) of any of such securities or any interests therein as referred to in paragraph (a) above (or any other shares or securities of or interest in such company arising or deriving therefrom as a result of capitalisation issue or scrip dividend or otherwise); or
  - (iii) agree (conditionally or unconditionally) to enter into or effect any transaction with the same economic effect as any of the transactions referred to in paragraphs (a)(i) and (a)(ii) above; or
  - (iv) announce any intention to enter into or effect any of the transactions referred to in paragraphs (a)(i), (a)(ii), or (a)(iii) above.
- (b) during the Second Six-Month Period:
  - (i) sell, transfer, dispose of, offer to sell, transfer or disposal of nor enter into any agreement to sell, transfer or dispose of or create any options, warrants, rights, interests or Encumbrances (including the creation or entry into of any agreement to create any pledge or charge or Encumbrances over, or by entering into any transaction which is designed to, or might reasonably be expected to, result in the disposition (whether by actual disposition or effective economic disposition due to cash settlement or otherwise)) on any shares in any company controlled by him/her/it or any of his/her/its associates which is the beneficial owner (directly or indirectly) of such Shares or any interests therein as aforesaid if, immediately following such disposal or creation of rights, the Controlling Shareholders (together with his/her/its associates) would, directly or indirectly, cease to be a controlling shareholder of the Company (within the meaning of the Listing Rules) or cease to hold, directly or indirectly, a controlling interest of over 30%, or such lower amount as may from time to time be specified in the Takeovers Codes as being the level for triggering a mandatory general offer, in the Company;
  - (ii) agree (conditionally or unconditionally) to enter into or effect any transaction with the same economic effect as any of the transactions referred to in paragraph (b)(i) above or announce any intention to enter into or effect any of the transactions referred to in paragraph (b)(i) above.

In the event of a disposal by him/her/it of any of the Shares or securities or any interest therein during the Second Six-Month Period, he/she/it will take all reasonable steps to ensure that such a disposal will not create a disorderly or false market for the Shares or other securities of the Company.

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## UNDERWRITING

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### **The Placing**

#### ***Placing Underwriting Agreement***

In connection with the Placing, it is expected that our Company will enter into the Placing Underwriting Agreement with, inter alia, the Placing Underwriters, on terms and conditions that are substantially similar to the Public Offer Underwriting Agreement and on the additional terms described below. Pursuant to the Placing Underwriting Agreement, we are offering the Placing Shares for subscription by way of Placing, on and subject to the terms and conditions in the Placing Underwriting Agreement and this prospectus, at the Offer Price. Under the Placing Underwriting Agreement, subject to, among other conditions, (i) the Listing Division of the Stock Exchange granting the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus on the Main Board of the Stock Exchange; (ii) the Public Offer Underwriting Agreement having been executed, becoming unconditional and not having been terminated; (iii) the Price Determination Agreement having been duly signed by the Company and the Joint Bookrunners (acting for themselves and on behalf of the Underwriters) on the date thereof and such agreement not subsequently having been terminated in accordance with its terms or otherwise; and (iv) certain other conditions set out in the Placing Underwriting Agreement, the Placing Underwriters have severally agreed to subscribe for, or procure subscribers for their respective applicable proportions of the Placing Shares on the terms and conditions of the Placing. The Placing Underwriting Agreement is expected to provide that it may be terminated on grounds similar to those provided in the Public Offer Underwriting Agreement. Potential investors are reminded that in the event that the Placing Underwriting Agreement is not entered into, the Share Offer will not proceed.

It is expected that, pursuant to the Placing Underwriting Agreement, our Company, our executive Directors and our Controlling Shareholders will give undertakings similar to those given pursuant to the Public Offer Underwriting Agreement, as described in the paragraph headed “Underwriting Arrangements and Expenses – The Public Offer – Undertakings pursuant to the Public Offer Underwriting Agreement” in this section.

#### **Total commission, fee and expenses**

In connection with the Share Offer, the Public Offer Underwriters will, and the Placing Underwriters are expected to receive an underwriting commission of 10.0% of the aggregate Offer Price of all the Offer Shares, out of which they will pay any sub-underwriting commissions. In connection with the Listing, the Sole Sponsor will receive a sponsorship and documentation fee.

The aggregate commissions and estimated expenses, together with Listing fees, SFC transaction levy, Stock Exchange trading fee, legal and other professional fees and printing and other expenses relating to the Share Offer are estimated to be approximately HK\$44.3 million (based on the Offer Price of HK\$1.1 per Share being the mid-point of the indicative range of the Offer Price), which shall be borne and payable by our Company.

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## UNDERWRITING

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### **INDEPENDENCE OF THE SOLE SPONSOR**

The Sole Sponsor satisfies the independence criteria applicable to sponsors set forth in Rule 3A.07 of the Listing Rules.

### **SOLE SPONSOR'S AND UNDERWRITERS' INTERESTS IN OUR COMPANY**

Save for their interests and obligations under the Underwriting Agreements and the sponsorship fee payable to the Sole Sponsor in respect of the Listing, none of the Sole Sponsor and the Underwriters are interested beneficially or non-beneficially in any shares in any member of our Group or has any right (whether legally enforceable or not) or option to subscribe for or to nominate persons to subscribe for any shares in any member of our Group.

### **MINIMUM PUBLIC FLOAT**

Our Directors will ensure that there will be a minimum 25% of the total issued Shares held in public hands in accordance with Rule 8.08(1) of the Listing Rules after completion of the Share Offer.

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## STRUCTURE AND CONDITIONS OF THE SHARE OFFER

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### THE SHARE OFFER

The Share Offer comprises:

- (a) the Public Offer of 12,500,000 Shares (subject to reallocation as mentioned below) for subscription by the public in Hong Kong as described in the paragraph headed “The Public Offer” in this section; and
- (b) the Placing of 112,500,000 Shares (subject to reallocation as mentioned below).

Investors may apply for Offer Shares under the Public Offer or apply for or indicate an interest for Offer Shares under the Placing, but may not do both. References in this prospectus to applications, Application Forms, application monies or the procedures for application relate solely to the Public Offer.

The Offer Shares will represent approximately 25.0% of the total issued share capital of our Company immediately after completion of the Share Offer and the Capitalisation Issue.

### THE PUBLIC OFFER

#### Number of Shares initially offered

We are initially offering 12,500,000 Shares for subscription by the public in Hong Kong at the Offer Price, representing 10% of the total number of Shares initially available under the Share Offer. Subject to the reallocation of Shares between the Public Offer and the Placing, the Public Offer Shares will represent approximately 2.5% of the total issued share capital of our Company immediately following the completion of the Share Offer and the Capitalisation Issue (without taking into account any Shares which may be allotted and issued pursuant to the exercise of any options which may be granted under the Share Option Scheme). The Public Offer is open to members of the public in Hong Kong as well as to professional, institutional and/or other investors. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealings in shares and other securities and corporate entities which regularly invest in shares and other securities.

Completion of the Public Offer is subject to the conditions as set out in the paragraph headed “Conditions of the Public Offer” in this section.

#### Allocation

Allocation of Public Offer Shares to investors under the Public Offer will be based on the level of valid applications received under the Public Offer. The basis of allocation may vary depending on the number of Public Offer Shares validly applied for by applicants. We may, if necessary, allocate the Public Offer Shares on the basis of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Public Offer Shares and those applicants who are not successful in the ballot may not receive any Public Offer Shares.



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## STRUCTURE AND CONDITIONS OF THE SHARE OFFER

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For allocation purposes only, the total number of Offer Shares available under the Public Offer is to be divided equally into two pools:

- **Pool A:** The Public Offer Shares in pool A will be allocated on an equitable basis to applicants who have applied for the Public Offer Shares with an aggregate subscription price of HK\$5.0 million or less (excluding brokerage, SFC transaction levy and Stock Exchange trading fee payable); and
- **Pool B:** The Public Offer Shares in pool B will be allocated on an equitable basis to applicants who have applied for the Public Offer Shares with an aggregate subscription price of more than HK\$5.0 million and up to the value of pool B (excluding brokerage, SFC transaction levy and Stock Exchange trading fee payable).

Investors should be aware that applications in pool A and applications in pool B may receive different allocation ratios. If the Public Offer Shares in one (but not both) of the pools are undersubscribed, the surplus Public Offer Shares will be transferred to the other pool to satisfy demand in the pool and be allocated accordingly. For the purpose of this subsection only, the “subscription price” for the Public Offer Shares means the price payable on application therefor (without regard to the Offer Price as finally determined). Applicants can only receive an allocation of Public Offer Shares from either pool A or pool B but not from both pools. Multiple or suspected multiple applications under the Public Offer and any application for more than 6,248,000 Public Offer Shares will be rejected.

### Reallocation

The allocation of Offer Shares between the Public Offer and the Placing is subject to reallocation at the discretion of the Joint Bookrunners on the following basis:

- (a) where the Placing Shares are fully subscribed or oversubscribed:
  - (i) if the Public Offer Shares are undersubscribed, the Joint Bookrunners have the authority to reallocate all or any unsubscribed Public Offer Shares to the Placing, in such proportions as the Joint Bookrunners deem appropriate;
  - (ii) if the number of Offer Shares validly applied for under the Public Offer represents less than 15 times the number of the Offer Shares initially available for subscription under the Public Offer, then up to 12,500,000 Offer Shares may be reallocated to the Public Offer from the Placing, so that the total number of the Offer Shares available under the Public Offer will be increased to 25,000,000 Offer Shares, representing 20% of the total number of the Offer Shares initially available under the Share Offer;

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## STRUCTURE AND CONDITIONS OF THE SHARE OFFER

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- (iii) if the number of Offer Shares validly applied for under the Public Offer represents (1) 15 times or more but less than 50 times, (2) 50 times or more but less than 100 times, and (3) 100 times or more of the number of Offer Shares initially available under the Public Offer, the Offer Shares will be reallocated to the Public Offer from the Placing in accordance with the clawback requirements set forth in paragraph 4.2 of Practice Note 18 of the Listing Rules, so that the total number of Public Offer Shares will be increased to 37,500,000 Offer Shares (in the case of (1)), 50,000,000 Offer Shares (in the case of (2)) and 62,500,000 Offer Shares (in the case of (3)), representing approximately 30%, 40% and 50% of the Offer Shares initially available under the Share Offer, respectively;
- (b) where the Placing Shares are undersubscribed:
  - (i) if the Public Offer Shares are also undersubscribed, the Share Offer will not proceed unless the Underwriters would subscribe for or procure subscribers for their respective applicable proportions of the Offer Shares being offered which are not taken up under the Share Offer on the terms and conditions of this prospectus, the Application Forms and the Underwriting Agreements; and
  - (ii) if the Public Offer Shares are fully subscribed or oversubscribed (irrespective of the extent of over-subscription), then up to 12,500,000 Offer Shares may be reallocated to the Public Offer from the Placing, so that the total number of the Offer Shares available under the Public Offer will be increased to 25,000,000 Offer Shares, representing 20% of the total number of the Offer Shares initially available under the Share Offer.

In the event of reallocation of Offer Shares from the Placing to the Public Offer in the circumstances described in paragraph (a)(ii) or (b)(ii) above, the final Offer Price shall be fixed at the bottom end of the Offer Price range (i.e. HK\$1.0 per Offer Share) according to HKEX Guidance Letter HKEX-GL91-18 issued by the Stock Exchange.

In all cases of reallocation of Offer Shares from the Placing to the Public Offer, the additional Offer Shares reallocated to the Public Offer will be allocated between pool A and pool B in equal proportion and the number of Offer Shares allocated to the Placing will be correspondingly reduced.

### **Applications**

Each applicant under the Public Offer will also be required to give an undertaking and confirmation in the application submitted by him/her/it that he/she/it and any person(s) for whose benefit he is making the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the Placing, and such applicant's application is liable to be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be) or it has been or will be placed or allocated Offer Shares under the Placing.

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## STRUCTURE AND CONDITIONS OF THE SHARE OFFER

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Multiple or suspected multiple applications and any application for more than approximate 50% of the Public Offer Shares initially comprised in the Public Offer are liable to be rejected. Applicants under the Public Offer are required to pay, on application, the maximum price of HK\$1.2 per Offer Share in addition to the brokerage, SFC transaction levy and Stock Exchange trading fee, amounting to a total of HK\$4,848.37 per board lot of 4,000 Offer Shares. If the Offer Price, as finally determined in the manner described in the paragraph headed “Price Determination of the Share Offer” in this section, is less than the maximum price of HK\$1.2 per Offer Share, appropriate refund payments (including the brokerage, SFC transaction levy and Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applicants, without interest. Further details are set out below in the section headed “How to Apply for Public Offer Shares” in this prospectus.

### THE PLACING

#### Number of Offer Shares offered

The Placing will consist of an initial offering of 112,500,000 Shares (subject to reallocation), representing 90% of the total number of Offer Shares initially available under the Share Offer and approximately 22.5% of the total issued share capital immediately after completion of the Share Offer and the Capitalisation Issue (without taking into account any Shares which may be allotted and issued pursuant to the exercise of any options which may be granted under the Share Option Scheme). The Placing will be offered by us to professional, institutional and/or other investors in Hong Kong.

#### Allocation

The Placing will include selective marketing of the Placing Shares to professional, institutional and/or other investors anticipated to have a sizeable demand for the Placing Shares in Hong Kong. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealings in shares and other securities and corporate entities which regularly invest in shares and other securities. Allocation of the Placing Shares pursuant to the Placing will be effected in accordance with the “book-building” process described in the paragraph headed “Price Determination of the Share Offer” below and based on a number of factors, including the level and timing of demand, and whether or not it is expected that the relevant investor is likely to buy further Offer Shares, and/or hold or sell its Offer Shares, after the listing of the Offer Shares on the Stock Exchange. Such allocation is intended to result in a distribution of the Offer Shares on a basis which would lead to the establishment of a solid shareholder base to the benefit of our Company and the Shareholders as a whole.

The Joint Bookrunners (for themselves and on behalf of the Underwriters) may require any investor who has been offered Placing Shares under the Placing, and who has made an application under the Public Offer to provide sufficient information to the Joint Bookrunners so as to allow it to identify the relevant applications under the Public Offer and to ensure that it is excluded from any application of the Public Offer Shares under the Public Offer.

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## STRUCTURE AND CONDITIONS OF THE SHARE OFFER

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### Reallocation

The total number of Offer Shares to be issued pursuant to the Placing may change as a result of the clawback arrangement as described above in the paragraph headed “The Public Offer — Reallocation” and/or any reallocation of unsubscribed Offer Shares originally included in the Public Offer.

### PRICE DETERMINATION OF THE SHARE OFFER

The Placing Underwriters will be soliciting from prospective investors’ indications of interest in acquiring Offer Shares in the Placing. Prospective investors will be required to specify the number of the Placing Shares under the Placing they would be prepared to acquire either at different prices or at a particular price. This process, known as “book-building”, is expected to continue up to, and to cease on or around, the last day for lodging applications under the Public Offer.

Pricing for the Offer Shares for the purpose of the various offerings under the Share Offer will be fixed on the Price Determination Date, which is expected to be on or about Tuesday, 9 July 2019 by agreement between the Joint Bookrunners (for themselves and on behalf of the Underwriters) and our Company, and the number of Offer Shares to be allocated or sold under various offerings will be determined shortly thereafter.

The Offer Price will not be more than HK\$1.2 per Offer Share and is expected to be not less than HK\$1.0 per Offer Share unless otherwise announced, as further explained below, not later than the morning of the last day for lodging applications under the Public Offer. Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative Offer Price range stated in this prospectus.

The Joint Bookrunners (for themselves and on behalf of the Underwriters) may, where considered appropriate, based on the level of interest expressed by prospective professional, institutional and/or other investors during the book-building process, and with the consent of our Company, reduce the number of Offer Shares offered in the Share Offer and/or the indicative Offer Price range below that stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Public Offer. In such a case, we will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the day which is the last day for lodging applications under the Public Offer, cause there to be published on the website of our Company ([www.kelfred.com.hk](http://www.kelfred.com.hk)) and the website of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) a notice of the reduction or to be announced in such manner as permitted under the Listing Rules and agreed between our Company and the Joint Bookrunners. Upon issue of such a notice, the number of Offer Shares offered in the Share Offer and/or the revised Offer Price range will be final and conclusive and the Offer Price, if agreed upon by the Joint Bookrunners (for themselves and on behalf of the Underwriters) and our Company, will be fixed within such revised offer price range. Before submitting applications for the Public Offer Shares, applicants should have regard to the possibility that any announcement of a reduction in the number of Offer Shares being offered under the Share Offer and/or the indicative Offer Price range may not be made until the day which is the last day for lodging applications under the Public Offer. In the event there is a reduction in the Offer Shares and/or indicative Offer Price range, if the applicants have already submitted an application for the Public Offer Shares before the last day for lodging applications under the Public Offer, they will be allowed to subsequently withdraw their applications. However, if the Offer Price range is

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## STRUCTURE AND CONDITIONS OF THE SHARE OFFER

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reduced, applicants will be notified that they are required to confirm their applications. If applicants have been notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked. In the absence of any such notice so published, the Offer Price, if agreed upon with our Company and the Joint Bookrunners, will under no circumstances be set outside the Offer Price range as stated in this prospectus.

The net proceeds of the Share Offer accruing to our Company (after deduction of the underwriting fees and estimated expenses payable by our Company in relation to the Share Offer) are estimated to be approximately HK\$93.2 million, assuming an Offer Price per Offer Share of HK\$1.1 (being the midpoint of the stated indicative Offer Price range of HK\$1.0 to HK\$1.2 per Offer Share).

The final Offer Price, the indications of interest in the Share Offer, the results of applications and the basis of allotment of the Public Offer Shares available under the Public Offer, are expected to be announced on Monday, 15 July 2019 on the website of our Company ([www.kelfred.com.hk](http://www.kelfred.com.hk)) and the website of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)).

If the Joint Bookrunners (for themselves and on behalf of the Underwriters) and our Company are unable to reach an agreement on the Offer Price on or about Tuesday, 9 July 2019 the Share Offer will not become unconditional and will lapse immediately.

### UNDERWRITING AGREEMENTS

The Public Offer is fully underwritten by the Public Offer Underwriters under the terms of the Public Offer Underwriting Agreement and is conditional upon the Placing Underwriting Agreement being signed and becoming unconditional.

Our Company, our Controlling Shareholders, our executive Directors, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Co-Lead Managers and the Placing Underwriters expect to enter into the Placing Underwriting Agreement relating to the Placing on or about the Price Determination Date. These underwriting arrangements, and the respective Underwriting Agreements, are summarised in the section headed “Underwriting” in this prospectus.

### SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the approval of the listing of, and permission to deal in, the Shares on the Main Board and the compliance with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or any other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. All necessary arrangements have been made for the Shares to be admitted into CCASS.

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## STRUCTURE AND CONDITIONS OF THE SHARE OFFER

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### CONDITIONS OF THE PUBLIC OFFER

Acceptance of all applications for the Public Offer Shares pursuant to the Public Offer will be conditional on:

- (a) the Listing Division of the Stock Exchange granting listing of, and permission to deal in, the Shares being offered pursuant to the Share Offer and the options that may be granted under the Share Option Scheme;
- (b) the Offer Price having been fixed on or about the Price Determination Date;
- (c) the execution and delivery of the Placing Underwriting Agreement on or about the Price Determination Date; and
- (d) the obligations of the Placing Underwriters under the Placing Underwriting Agreement becoming and remaining unconditional and not having been terminated in accordance with its terms, on or before the dates and times specified in the Placing Underwriting Agreement.

If, for any reason, the Offer Price is not agreed between our Company and the Joint Bookrunners (for themselves and on behalf of the Underwriters), or the Placing Underwriting Agreement is not entered into, the Share Offer will not proceed.

The consummation of each of the Public Offer and the Placing is conditional upon, among other things, the other offering becoming unconditional and not having been terminated in accordance with its terms.

If the above conditions are not fulfilled or waived prior to the times and dates specified, the Share Offer will lapse and the Stock Exchange will be notified immediately. Notice of the lapse of the Share Offer will be published on our Company's website ([www.kelfred.com.hk](http://www.kelfred.com.hk)) and the Stock Exchange's website ([www.hkexnews.hk](http://www.hkexnews.hk)) on the next day following such lapse. In such eventuality, all application monies will be returned, without interest, on the terms set out in the section headed "How to Apply for Public Offer Shares" in this prospectus. In the meantime, all application monies will be held in (a) separate bank account(s) with the receiving bank or other licensed bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (as amended).

Share certificates for the Shares are expected to be issued on or about Monday, 15 July 2019 but will only become valid certificates of title at 8:00 a.m. on Tuesday, 16 July 2019 provided that (i) the Share Offer has become unconditional in all respects and (ii) the right of termination as described in the section headed "Underwriting – Underwriting Arrangements and Expenses – The Public Offer – Grounds for Termination" in this prospectus has not been exercised.

### DEALINGS

Assuming that the Share Offer becomes unconditional at or before 8:00 a.m. in Hong Kong on Tuesday, 16 July 2019, it is expected that dealings in the Shares on the Stock Exchange will commence at 9:00 a.m. on Tuesday, 16 July 2019.

The Shares will be traded in board lots of 4,000 Shares each. The stock code of the Shares is 1134.

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## HOW TO APPLY FOR PUBLIC OFFER SHARES

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### 1. HOW TO APPLY

If you apply for Public Offer Shares, then you may not apply for or indicate an interest for Placing Shares.

To apply for Public Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form;
- apply online via the **HK eIPO White Form** service at [www.hkeipo.hk](http://www.hkeipo.hk); or
- electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

Our Company, the Joint Bookrunners, the **HK eIPO White Form** Service Provider and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

### 2. WHO CAN APPLY

You can apply for Public Offer Shares on a **WHITE** or **YELLOW** Application Form if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States, and are not a United States Person (as defined in Regulation S); and
- are not a legal or natural person of the PRC.

If you apply online through the **HK eIPO White Form** service, in addition to the above, you must also: (i) have a valid Hong Kong identity card number and (ii) provide a valid e-mail address and a contact telephone number.

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the application form must be signed by a duly authorised officer, who must state his representative capacity, and stamped with your corporation's chop.

If an application is made by a person under a power of attorney, our Company and the Joint Bookrunners may accept or reject it at their discretion and on any conditions they think fit, including provision of evidence of the attorney's authority.

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## HOW TO APPLY FOR PUBLIC OFFER SHARES

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The number of joint applicants may not exceed four and they may not apply by means of **HK eIPO White Form** service for the Public Offer Shares.

Unless permitted by the Listing Rules, you cannot apply for any Public Offer Shares if you are:

- an existing beneficial owner of Shares in our Company and/or any its subsidiaries;
- a Director or chief executive officer of our Company and/or any of its subsidiaries;
- a connected person (as defined in the Listing Rules) of our Company or will become a connected person of our Company immediately upon completion of the Share Offer;
- an associate or close associate (both as defined in the Listing Rules) of any of the above; or
- have been allocated or have applied for any Placing Shares or otherwise participate in the Placing.

### 3. APPLYING FOR PUBLIC OFFER SHARES

#### Which application channel to use

For Public Offer Shares to be issued in your own name, use a **WHITE** Application Form, or apply online via the **HK eIPO White Form** service at [www.hkeipo.hk](http://www.hkeipo.hk).

For Public Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a **YELLOW** Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

#### Where to Collect the Prospectus and Application Forms

You can collect a **WHITE** Application Form and a prospectus during normal business hours from 9:00 a.m. on Saturday, 29 June 2019 until 12:00 noon on Monday, 8 July 2019 from:

- (i) the following office of the Sole Sponsor:

45/F., COSCO Tower, 183 Queen's Road Central, Hong Kong; or

- (ii) the following offices of the Joint Bookrunners:

**Cinda International Capital Limited**

45/F., COSCO Tower, 183 Queen's Road Central, Hong Kong; or

**Head & Shoulders Securities Limited**

Room 2511, 25/F., COSCO Tower, 183 Queen's Road Central, Hong Kong; or



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## HOW TO APPLY FOR PUBLIC OFFER SHARES

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- (iii) the following offices of the Joint Lead Managers:

**Cinda International Capital Limited**

45/F., COSCO Tower, 183 Queen's Road Central, Hong Kong; or

**Head & Shoulders Securities Limited**

Room 2511, 25/F., COSCO Tower, 183 Queen's Road Central, Hong Kong; or

**I Win Securities Limited**

Room 1916, Hong Kong Plaza, 188 Connaught Road West, Sai Wan, Hong Kong; or

**Sinomax Securities Limited**

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

- (iv) the following offices of the Co-Lead Managers:

**Alpha Financial Group Limited**

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

**Yuzhou Financial Holdings Limited**

Unit E, 6/F, Yardley Commercial Building, 1-6 Connaught Road West, Sheung Wan, Hong Kong; or

- (v) the following branches of the receiving bank, DBS Bank (Hong Kong) Limited:

District	Branch Name	Address
Hong Kong Island	Queen's Road East – DBS Treasures Centre	Shop A, G/F, Jonsim Place 228 Queen's Road East Wanchai, Hong Kong
	Happy Valley Branch	G/F, 18A-22 King Kwong Street Happy Valley, Hong Kong
Kowloon	Mei Foo Branch	Shops N26A & N26B Stage V, Mei Foo Sun Chuen 10 & 12 Nassau Street Hong Kong
	Kowloon Bay – SME Banking Centre	Shop 6, G/F Chevalier Commercial Centre 8 Wang Hoi Road Kowloon Bay, Hong Kong
New Territories	Ma On Shan Branch	Shop 205-206, Level 2 Ma On Shan Plaza Ma On Shan, Hong Kong

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## HOW TO APPLY FOR PUBLIC OFFER SHARES

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You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Saturday, 29 June 2019 until 12:00 noon on Monday, 8 July 2019 from the Depository Counter of HKSCC at 1/F., One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong or from your stockbroker.

### Time for lodging Application Forms

Your completed **WHITE** or **YELLOW** Application Form, together with a cheque or a banker's cashier order attached and marked payable to "Ting Hong Nominees Limited – Kelfred Holdings Public Offer" for the payment, should be deposited in the special collection boxes provided at any of the designated branches of the receiving bank listed above, at the following times:

<b>Saturday, 29 June 2019</b>	<b>– 9:00 a.m. to 1:00 p.m.</b>
<b>Tuesday, 2 July 2019</b>	<b>– 9:00 a.m. to 5:00 p.m.</b>
<b>Wednesday, 3 July 2019</b>	<b>– 9:00 a.m. to 5:00 p.m.</b>
<b>Thursday, 4 July 2019</b>	<b>– 9:00 a.m. to 5:00 p.m.</b>
<b>Friday, 5 July 2019</b>	<b>– 9:00 a.m. to 5:00 p.m.</b>
<b>Saturday, 6 July 2019</b>	<b>– 9:00 a.m. to 1:00 p.m.</b>
<b>Monday, 8 July 2019</b>	<b>– 9:00 a.m. to 12:00 noon</b>

The application lists will be open from 9:00 a.m. to 12:00 noon on Monday, 8 July 2019, the last application day or such later time as described in the sub-section headed "10. Effect of bad weather on the opening of the application lists" in this section.

### 4. TERMS AND CONDITIONS OF AN APPLICATION

Follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.

By submitting an Application Form, or applying through the **HK eIPO White Form** service at [www.hkeipo.hk](http://www.hkeipo.hk), among other things, you (and if you are joint applicants, each of you jointly and severally) for yourself or as an agent or a nominee on behalf of each person for whom you act:

- (i) undertake to execute all relevant documents and instruct and authorise our Company and/or the Joint Bookrunners (or their agents or nominees), as agents of our Company, to execute any documents for you and to do on your behalf all things necessary to register any Public Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;
- (ii) agree to comply with the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Companies Ordinance and the Articles of Association;
- (iii) confirm that you have read the terms and conditions and application procedures set out in this prospectus and in the Application Form and agree to be bound by them;
- (iv) confirm that you have received and read this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations except those in any supplement to this prospectus;

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## HOW TO APPLY FOR PUBLIC OFFER SHARES

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- (v) confirm that you are aware of the restrictions on the Share Offer in this prospectus;
- (vi) agree that none of our Company, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Share Offer is or will be liable for any information and representations not in this prospectus (and any supplement to it);
- (vii) undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the Placing nor participated in the Placing;
- (viii) agree to disclose to our Company, our Hong Kong Branch Share Registrar, the receiving bank, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and/or their respective advisers and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;
- (ix) if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and none of our Company, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers and the Underwriters nor any of their respective officers or advisers will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus and the Application Form;
- (x) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- (xi) agree that your application will be governed by the laws of Hong Kong;
- (xii) represent, warrant and undertake that (i) you understand that the Public Offer Shares have not been and will not be registered under the US Securities Act; and (ii) you and any person for whose benefit you are applying for the Public Offer Shares are outside the United States (as defined in Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;
- (xiii) warrant that the information you have provided is true and accurate;
- (xiv) agree to accept the Public Offer Shares applied for, or any lesser number allocated to you under the application;
- (xv) authorise our Company to place your name(s) or the name of the HKSCC Nominees, on our Company's register of members as the holder(s) of any Public Offer Shares allocated to you, and our Company and/or its agents to send any share certificate(s) and/or any refund cheque(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you are eligible to collect the share certificate(s) and/or refund cheque(s) in person;

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## HOW TO APPLY FOR PUBLIC OFFER SHARES

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- (xvi) declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;
- (xvii) understand that our Company and the Joint Bookrunners will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Public Offer Shares to you and that you may be prosecuted for making a false declaration;
- (xviii) (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the **HK eIPO White Form** Service Provider by you or by any one as your agent or by any other person; and
- (xix) (if you are making the application as an agent for the benefit of another person) warrant that
  - (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC; and
  - (ii) you have due authority to sign the Application Form or give **electronic application instructions** on behalf of that other person as their agent.

### Additional instructions for Yellow Application Form

You may refer to the **YELLOW** Application Form for details.

## 5. APPLYING THROUGH HK eIPO WHITE FORM SERVICE

### General

Individuals who meet the criteria in the paragraph headed “2. Who can Apply” above in this section, may apply through the **HK eIPO White Form** service for the Offer Shares to be allotted and registered in their own names through the designated website at [www.hkeipo.hk](http://www.hkeipo.hk).

Detailed instructions for application through the **HK eIPO White Form** service are on the designated website at [www.hkeipo.hk](http://www.hkeipo.hk). If you do not follow the instructions, your application may be rejected and may not be submitted to our Company. If you apply through the designated website at [www.hkeipo.hk](http://www.hkeipo.hk), you authorise the **HK eIPO White Form** Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **HK eIPO White Form** Service.

### Time for Submitting Applications under the HK eIPO White Form service

You may submit your application to the **HK eIPO White Form** Service Provider at [www.hkeipo.hk](http://www.hkeipo.hk) (24 hours daily, except on the last application day) from 9:00 a.m. on Saturday, 29 June 2019 until 11:30 a.m. on Monday, 8 July 2019 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Monday, 8 July 2019 or such later time under the paragraph headed “10. Effect of bad weather on the opening of the application lists” below in this section.

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## HOW TO APPLY FOR PUBLIC OFFER SHARES

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### No Multiple Applications

If you apply by means of **HK eIPO White Form** service, once you complete payment in respect of any electronic application instruction given by you or for your benefit through the **HK eIPO White Form** service to make an application for Public Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an electronic application instruction under **HK eIPO White Form** service more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **HK eIPO White Form** service or by any other means, all of your applications are liable to be rejected.

### Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each applicant who gives or causes to **give electronic application instructions** is a person who may be entitled to compensation under section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

## 6. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

### General

CCASS Participants may give electronic application instructions to apply for the Public Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give these electronic application instructions through the CCASS Phone System by calling (852) 2979 7888 or through the CCASS Internet System (<https://ip.ccass.com>) (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you go to:

**Hong Kong Securities Clearing Company Limited**  
Customer Service Center  
1/F., One & Two Exchange Square  
8 Connaught Place  
Central  
Hong Kong

and complete an input request form.

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## HOW TO APPLY FOR PUBLIC OFFER SHARES

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You can also collect a prospectus from this address.

If you are not a **CCASS Investor Participant**, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Public Offer Shares on your behalf.

You will be deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application to our Company, the Sole Sponsor, the Joint Bookrunners and our Hong Kong Branch Share Registrar.

### Giving electronic application instructions to HKSCC via CCASS

Where you have given electronic **application instructions** to apply for the Public Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

- (i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;
- (ii) HKSCC Nominees will do the following things on your behalf:
  - agree that the Public Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;
  - agree to accept the Public Offer Shares applied for or any lesser number allocated;
  - undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any Offer Shares under the Placing;
  - (if the **electronic application instructions** are given for your benefit) declare that only one set of **electronic application instructions** has been given for your benefit;
  - (if you are an agent for another person) declare that you have only given one set of **electronic application instructions** for the other person's benefit and are duly authorised to give those instructions as their agent;
  - confirm that you understand that our Company, our Directors and the Joint Bookrunners will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Public Offer Shares to you and that you may be prosecuted if you make a false declaration;
  - authorise our Company to place HKSCC Nominees' name on our Company's register of members as the holder of the Public Offer Shares allocated to you and to send share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;

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## HOW TO APPLY FOR PUBLIC OFFER SHARES

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- confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;
- confirm that you have received and/or read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made, save as set out in any supplement to this prospectus;
- agree that none of our Company, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Share Offer, is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);
- agree to disclose your personal data to our Company, our Hong Kong Branch Share Registrar, receiving bank, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and/or its respective advisers and agents;
- agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;
- agree that any application made by HKSCC Nominees on your behalf is irrevocable before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us and to become binding when you give the instructions and such collateral contract to be in consideration of our Company agreeing that it will not offer any Public Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;
- agree that once HKSCC Nominees' application is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by our Company's announcement of the Public Offer results;
- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for the giving **electronic application instructions** to apply for Public Offer Shares;

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## HOW TO APPLY FOR PUBLIC OFFER SHARES

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- agree with our Company, for itself and for the benefit of each Shareholder (and so that our Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of the Shareholders, with each CCASS Participant giving electronic application instructions) to observe and comply with the Companies (Winding Up and Miscellaneous Provisions) Ordinance, Companies Ordinance and the Articles of Association; and
- agree that your application, any acceptance of it and the resulting contract will be governed by the laws of Hong Kong.

### **Effect of giving electronic application instructions to HKSCC via CCASS**

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to our Company or any other person in respect of the things mentioned below:

- instructed and authorised HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Public Offer Shares on your behalf;
- instructed and authorised HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum Offer Price per Offer Share initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and the Stock Exchange trading fee) by crediting your designated bank account; and
- instructed and authorised HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the **WHITE** Application Form and in this prospectus.

### **Minimum purchase amount and permitted numbers**

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give electronic application instructions for a minimum of 4,000 Public Offer Shares. Instructions for more than 4,000 Public Offer Shares must be in one of the numbers set out in the table in the Application Forms. No application for any other number of Public Offer Shares will be considered and any such application is liable to be rejected.



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## HOW TO APPLY FOR PUBLIC OFFER SHARES

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### **Time for Inputting *Electronic Application Instructions***

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates: *(Note 1)*

<b>Saturday, 29 June 2019</b>	<b>– 9:00 a.m. to 1:00 p.m.</b>
<b>Tuesday, 2 July 2019</b>	<b>– 8:00 a.m. to 8:30 p.m.</b>
<b>Wednesday, 3 July 2019</b>	<b>– 8:00 a.m. to 8:30 p.m.</b>
<b>Thursday, 4 July 2019</b>	<b>– 8:00 a.m. to 8:30 p.m.</b>
<b>Friday, 5 July 2019</b>	<b>– 8:00 a.m. to 8:30 p.m.</b>
<b>Monday, 8 July 2019</b>	<b>– 8:00 a.m. to 12:00 noon</b>

*Note:*

1. The times in this sub-section are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants and/or CCASS Investor Participants.

CCASS Investor Participants can input electronic application instructions from 9:00 a.m. on Saturday, 29 June 2019 until 12:00 noon on Monday, 8 July 2019 (24 hours daily, except on Monday, 8 July 2019 the last application day).

The latest time for inputting your electronic application instructions will be 12:00 noon on Monday, 8 July 2019, the last application day or such later time as described in the sub-section headed “10. Effect of bad weather on the opening of the application lists” in this section.

### **No multiple applications**

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Public Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Public Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any electronic application instructions to make an application for the Public Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

### **Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance**

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give electronic application instructions is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

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## HOW TO APPLY FOR PUBLIC OFFER SHARES

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### Personal data

The section of the Application Form headed “Personal Data” applies to any personal data held by our Company, the Hong Kong Branch Share Registrar, the receiving bank, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and any of their respective advisers and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

### 7. WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the Public Offer Shares by giving electronic application instructions to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for Public Offer Shares through the **HK eIPO White Form** service is also only a facility provided by the **HK eIPO White Form** Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. Our Company, our Directors, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through the **HK eIPO White Form** service will be allotted any Public Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/CCASS Internet System for submission of electronic application instructions, they should either (i) submit a **WHITE** or **YELLOW** Application Form, or (ii) go to HKSCC’s Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon on Monday, 8 July 2019.

### 8. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Public Offer Shares are not allowed except by nominees. If you are a nominee, in the box on the Application Form marked “For nominees” you must include:

- an account number; or
- some other identification code,

for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form or by giving electronic application instructions to HKSCC or through **HK eIPO White Form** service, is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and:

- the principal business of that company is dealings in securities; and

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## HOW TO APPLY FOR PUBLIC OFFER SHARES

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- you exercise statutory control over that company, then the application will be treated as being for your benefit.

“Unlisted company” means a company with no equity securities listed on the Stock Exchange.

“Statutory control” means you:

- control the composition of our Board of directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

### 9. HOW MUCH ARE THE PUBLIC OFFER SHARES

The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for the Public Offer Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee in full upon application for the Public Offer Shares under the terms set out in the Application Forms.

You may submit an application using a **WHITE** or **YELLOW** Application Form or through the **HK eIPO White Form** service in respect of a minimum of 4,000 Public Offer Shares. Each application or electronic application instructions in respect of more than 4,000 Public Offer Shares must be in one of the numbers set out in the table in the Application Form or as otherwise specified on the designated website at [www.hkeipo.hk](http://www.hkeipo.hk).

If your application is successful, brokerage will be paid to the Exchange Participants, and the SFC transaction levy and the Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

For further details on the Offer Price, see the section headed “Structure and Conditions of the Share Offer” in this prospectus.

### 10. EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above; or
- a “black” rainstorm warning,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Monday, 8 July 2019. Instead they will open between 11:45 a.m. and 12:00 noon on the next business day which does not have either of those warnings in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

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## HOW TO APPLY FOR PUBLIC OFFER SHARES

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If the application lists do not open and close on Monday, 8 July 2019 or if there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal in force in Hong Kong that may affect the dates mentioned in the section headed “Expected Timetable” in this prospectus, an announcement will be made in such event.

### 11. PUBLICATION OF RESULTS

Our Company expects to announce the Offer Price, the level of indication of interest in the Placing, the level of applications in the Public Offer and the basis of allocation of the Public Offer Shares on Monday, 15 July 2019 on our Company’s website [www.kelfred.com.hk](http://www.kelfred.com.hk) and the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk).

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Public Offer will be available at the times and date and in the manner specified below:

- In the announcement to be posted on our Company’s website at [www.kelfred.com.hk](http://www.kelfred.com.hk) and the Stock Exchange’s website at [www.hkexnews.hk](http://www.hkexnews.hk) by no later than 9:00 a.m. on Monday, 15 July 2019;
- from the designated results of allocations website at [www.tricor.com.hk/ipo/result](http://www.tricor.com.hk/ipo/result) and [www.hkeipo.hk/iporesult](http://www.hkeipo.hk/iporesult) with a “search by ID” function on a 24-hour basis from 8:00 a.m. on Monday, 15 July 2019 to 12:00 midnight on Friday, 19 July 2019;
- by telephone enquiry line by calling (852) 3691 8488 between 9:00 a.m. and 6:00 p.m. from Monday, 15 July 2019 to Thursday, 18 July 2019 on a business day; and
- in the special allocation results booklets which will be available for inspection during opening hours from Monday, 15 July 2019 to Wednesday, 17 July 2019 at all the designated receiving bank branches on a business day.

If our Company accepts your offer to purchase (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Public Offer Shares if the conditions of the Share Offer are satisfied and the Share Offer is not otherwise terminated. Further details are contained in the section headed “Structure and Conditions of the Share Offer” in this prospectus.

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

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## HOW TO APPLY FOR PUBLIC OFFER SHARES

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### 12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED PUBLIC OFFER SHARES

You should note the following situations in which the Public Offer Shares will not be allotted to you:

**(i) If your application is revoked:**

By completing and submitting an Application Form or giving **electronic application instructions** to HKSCC or to **HK eIPO White Form** Service Provider, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with our Company.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance) gives a public notice under that section which excludes or limits that person's responsibility for this prospectus.

If any supplement to this prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

**(ii) If our Company or its agents exercise their discretion to reject your application:**

Our Company, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the **HK eIPO White Form** Service Provider and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

**(iii) If the allotment of Public Offer Shares is void:**

The allotment of Public Offer Shares will be void if the Listing Division does not grant permission to list the Shares either:

- within three weeks from the closing date of the application lists; or

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## HOW TO APPLY FOR PUBLIC OFFER SHARES

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- within a longer period of up to six weeks if the Listing Division notifies our Company of that longer period within three weeks of the closing date of the application lists.

**(iv) If:**

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Public Offer Shares and Placing Shares;
- your Application Form is not completed in accordance with the stated instructions;
- your electronic application instructions through the **HK eIPO White Form** service are not completed in accordance with the instructions, terms and conditions on the designated website at [www.hkeipo.hk](http://www.hkeipo.hk);
- your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonoured upon its first presentation;
- the Underwriting Agreements do not become unconditional or are terminated;
- our Company or the Joint Bookrunners believe that by accepting your application, it or they would violate applicable securities or other laws, rules or regulations; or
- your application is for more than approximate 50% of the Public Offer Shares initially available for subscription under the Public Offer.

### **13. REFUND OF APPLICATION MONIES**

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum Offer Price of HK\$1.2 per Offer Share (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee thereon), or if the conditions of the Public Offer set out in the section headed "Structure and Conditions of the Share Offer – Conditions of the Public Offer" in this prospectus are not fulfilled or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and the Stock Exchange trading fee, will be refunded, without interest or the cheque or banker's cashier order will not be cleared.

Any refund of your application monies will be made on Monday, 15 July 2019.

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## HOW TO APPLY FOR PUBLIC OFFER SHARES

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### 14. DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one share certificate for all Public Offer Shares allotted to you under the Public Offer (except pursuant to applications made on **YELLOW** Application Forms or by **electronic application instructions** to HKSCC via CCASS where the share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application. If you apply by **WHITE** or **YELLOW** Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- share certificate(s) for all the Public Offer Shares allotted to you (for **YELLOW** Application Forms, share certificates will be deposited into CCASS as described below); and
- refund cheque(s) crossed “Account Payee Only” in favour of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the Public Offer Shares, wholly or partially unsuccessfully applied for; and/or (ii) the difference between the Offer Price and the maximum Offer Price per Offer Share paid on application in the event that the Offer Price is less than the maximum Offer Price (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest). Part of the Hong Kong identity card number/passport number, provided by you or the first-named applicant (if you are joint applicants), may be printed on your refund cheque, if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund cheque(s).

Subject to arrangement on despatch/collection of share certificates and refund monies as mentioned below, any refund cheques and share certificates are expected to be posted on Monday, 15 July 2019. The right is reserved to retain any share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker’s cashier order(s).

Share certificates will only become valid at 8:00 a.m. on Tuesday, 16 July 2019 provided that the Share Offer has become unconditional and the right of termination described in the section headed “Underwriting” in this prospectus has not been exercised. Investors who trade Shares prior to the receipt of share certificates or the share certificates becoming valid do so at their own risk.

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## HOW TO APPLY FOR PUBLIC OFFER SHARES

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### Personal Collection

#### *(i) If you apply using a WHITE Application Form*

If you apply for 1,000,000 Public Offer Shares or more and have provided all information required by your Application Form, you may collect your refund cheque(s) (where applicable) and/or share certificate(s) (where applicable) from the Hong Kong Branch Share Registrar from 9:00 a.m. to 1:00 p.m. on Monday, 15 July 2019 or such other date as notified by our Company in the newspapers or on the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) or the website of the Company at [www.kelfred.com.hk](http://www.kelfred.com.hk) as the date of collection/despatch of share certificates/e-Auto Refund payment instructions/refund cheques. If you are an individual who is eligible for personal collection, you must not authorise any other person to make collection on your behalf. If you are a corporate applicant which is eligible for personal collection, you must attend by your authorised representative bearing a letter of authorisation from your corporation stamped with your corporation's chop. Both individuals and authorised representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to the Hong Kong Branch Share Registrar.

If you do not collect your refund cheque(s) (where applicable) and/or share certificate(s) (where applicable) personally within the time specified for collection, they will be sent to the address as specified on your Application Form promptly thereafter by ordinary post and at your own risk.

If you apply for less than 1,000,000 Public Offer Shares, your refund cheque(s) (where applicable) and/or share certificate(s) (where applicable) will be sent to the address on your Application Form on Monday, 15 July 2019, by ordinary post and at your own risk.

#### *(ii) If you apply using a YELLOW Application Form*

If you apply for 1,000,000 Public Offer Shares or more and have provided all information required by your Application Form, you may collect your refund cheque(s) (where applicable) from the Hong Kong Branch Share Registrar from 9:00 a.m. to 1:00 p.m. on Monday, 15 July 2019 or such other date as notified by our Company on the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) or the website of the Company at [www.kelfred.com.hk](http://www.kelfred.com.hk) as the date of collection/despatch of share certificates/e-Auto Refund payment instructions/refund cheques. If you are an individual who is eligible for personal collection, you must not authorise any other person to make collection on your behalf. If you are a corporate applicant which is eligible for personal collection, you must attend by your authorised representative bearing a letter of authorisation from your corporation stamped with your corporation's chop. Both individuals and authorised representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to the Hong Kong Branch Share Registrar.

If you do not collect your refund cheque(s) (where applicable) personally within the time specified for collection, they will be sent to the address as specified on your Application Form promptly thereafter by ordinary post and at your own risk.



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## HOW TO APPLY FOR PUBLIC OFFER SHARES

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If you apply for less than 1,000,000 Public Offer Shares, your refund cheque(s) (where applicable) will be sent to the address on your Application Form on Monday, 15 July 2019, by ordinary post and at your own risk.

If you apply by using a **YELLOW** Application Form and your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your or the designated CCASS Participant's stock account as stated in your Application Form on Monday, 15 July 2019, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

- *If you apply through a designated CCASS participant (other than a CCASS Investor Participant)*

For Public Offer Shares credited to your designated CCASS participant's stock account (other than CCASS Investor Participant), you can check the number of Public Offer Shares allotted to you with that CCASS participant.

- *If you apply as a CCASS Investor Participant*

Our Company will publish the results of CCASS Investor Participants' applications together with the results of the Public Offer in the manner described in the sub-section headed "11. Publication of results" above. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Monday, 15 July 2019 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Public Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System.

**(iii) *If you apply through the HK eIPO White Form Service***

If you apply for 1,000,000 Public Offer Shares or more and your application is wholly or partially successful, you may collect your share certificate(s) from Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong from 9:00 a.m. to 1:00 p.m. on Monday, 15 July 2019, or such other date as notified by our Company on the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) or the website of the Company at [www.kelfred.com.hk](http://www.kelfred.com.hk) as the date of despatch/collection of share certificates/e-Auto Refund payment instructions/refund cheques.

If you do not collect your share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post at your own risk.

If you apply for less than 1,000,000 Public Offer Shares, your Share certificate(s) (where applicable) will be sent to the address specified in your application instructions on or before Monday, 15 July 2019 by ordinary post at your own risk.

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## HOW TO APPLY FOR PUBLIC OFFER SHARES

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If you apply and pay the application monies from a single bank account, any refund monies will be despatched to that bank account in the form of e-Auto Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be despatched to the address as specified in your application instructions in the form of refund cheque(s) by ordinary post at your own risk.

*(iv) If you apply via Electronic Application Instructions to HKSCC*

*Allocation of Public Offer Shares*

For the purposes of allocating Public Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit instructions are given will be treated as an applicant.

*Deposit of Share Certificates into CCASS and Refund of Application Monies*

- If your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Monday, 15 July 2019, or, on any other date determined by HKSCC or HKSCC Nominees.
- Our Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, our Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Public Offer in the manner specified in the paragraph headed "11. Publication of results" above on Monday, 15 July 2019. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Monday, 15 July 2019 or such other date as determined by HKSCC or HKSCC Nominees.
- If you have instructed your broker or custodian to give electronic application instructions on your behalf, you can also check the number of Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.
- If you have applied as a CCASS Investor Participant, you can also check the number of Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Monday, 15 July 2019. Immediately following the credit of the Public Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Public Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.

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## HOW TO APPLY FOR PUBLIC OFFER SHARES

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- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Monday, 15 July 2019.

### **15. ADMISSION OF THE SHARES INTO CCASS**

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second Business Day after any trading day.

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

Investors should seek the advice of their stockbrokers or other professional advisers for details of the settlement arrangement as such arrangements may affect their rights and interests.

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

*The following is the text of a report set out on pages I-1 to I-60, received from the Company's reporting accountants, RSM Hong Kong, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.*



29th Floor  
Lee Garden Two  
28 Yun Ping Road  
Causeway Bay  
Hong Kong

29 June 2019

The Board of Directors  
Kelfred Holdings Limited  
Cinda International Capital Limited

Dear Sirs,

## **INTRODUCTION**

We report on the historical financial information of Kelfred Holdings Limited (the “Company”) and its subsidiaries (together, the “Group”) set out on pages I-4 to I-60, which comprises the statement of financial position of the Company as at 31 December 2018 and the consolidated statements of financial position of the Group as at 31 December 2016, 2017 and 2018 and the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for each of the three years ended 31 December 2016, 2017 and 2018 (the “Track Record Period”) and a summary of significant accounting policies and other explanatory information (together, the “Historical Financial Information”). The Historical Financial Information set out on pages I-4 to I-60 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated 29 June 2019 (the “Prospectus”) in connection with the initial listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the “Listing”).

## **DIRECTORS' RESPONSIBILITY FOR THE HISTORICAL FINANCIAL INFORMATION**

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

**REPORTING ACCOUNTANTS' RESPONSIBILITY**

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 Accountants' Reports on Historical Financial Information in Investment Circulars issued by the Hong Kong Institute of Certified Public Accountants (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 give a true and fair view in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**OPINION**

In our opinion, the Historical Financial Information gives, for the purposes of the Accountants' Report, a true and fair view of the Company's financial position as at 31 December 2018 and the Group's financial position as at 31 December 2016, 2017 and 2018 and of the Group's financial performance and cash flows for the Track Record Period in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information.

**REPORT ON MATTERS UNDER THE RULES GOVERNING THE LISTING OF SECURITIES  
ON THE STOCK EXCHANGE OF HONG KONG LIMITED AND THE COMPANIES (WINDING  
UP AND MISCELLANEOUS PROVISIONS) ORDINANCE****Adjustments**

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

**Dividends**

We refer to Note 16 to the Historical Financial Information which contains information about the dividends paid by subsidiaries of the Company and states that no dividends have been paid by the Company in respect of the Track Record Period.

**No statutory financial statements of the Company**

No statutory financial statements have been prepared for the Company since its date of incorporation.

**RSM Hong Kong**

*Certified Public Accountants*

Hong Kong

**HISTORICAL FINANCIAL INFORMATION OF THE GROUP****Preparation of Historical Financial Information**

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

The consolidated financial statements of the Group for the Track Record Period, on which the Historical Financial Information is based, were audited by RSM Hong Kong in accordance with Hong Kong Standards on Auditing issued by the HKICPA (the "Underlying Financial Statements").

The Historical Financial Information is presented in Hong Kong dollars ("HKD") and all values are rounded to the nearest thousand (HK\$'000) except when otherwise indicated.

**APPENDIX I****ACCOUNTANTS' REPORT ON  
HISTORICAL FINANCIAL INFORMATION****A. CONSOLIDATED STATEMENTS OF PROFIT OR LOSS**

	<i>Note</i>	<b>Year ended 31 December</b>		
		<b>2016</b>	<b>2017</b>	<b>2018</b>
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Revenue</b>	8	317,996	362,775	421,094
Cost of sales		<u>(230,806)</u>	<u>(268,870)</u>	<u>(324,412)</u>
<b>Gross profit</b>		87,190	93,905	96,682
Other income	9	1,733	2,666	2,876
Other gains and losses	10	5,028	(972)	3,963
Selling and distribution expenses		<u>(12,149)</u>	<u>(15,637)</u>	<u>(16,601)</u>
Administrative and other operating expenses		<u>(27,085)</u>	<u>(38,114)</u>	<u>(46,532)</u>
<b>Profit from operations</b>		54,717	41,848	40,388
Finance costs, net	11	<u>(565)</u>	<u>(940)</u>	<u>(2,022)</u>
<b>Profit before tax</b>		54,152	40,908	38,366
Income tax expenses	12	<u>(9,363)</u>	<u>(8,021)</u>	<u>(7,341)</u>
<b>Profit for the year</b>	13	<u>44,789</u>	<u>32,887</u>	<u>31,025</u>
Attributable to:				
Owners of the Company		44,195	32,331	30,420
Non-controlling interests ("NCI")		<u>594</u>	<u>556</u>	<u>605</u>
		<u>44,789</u>	<u>32,887</u>	<u>31,025</u>
<b>Earnings per share for profit attributable to owners of the Company</b>				
– Basic and diluted	17	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>



**B. CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**

	Year ended 31 December		
	2016	2017	2018
	HK\$'000	HK\$'000	HK\$'000
<b>Profit for the year</b>	44,789	32,887	31,025
Other comprehensive income:			
<i>Items that may be reclassified to profit or loss:</i>			
Exchange differences on translating foreign operations	(2,947)	4,923	(4,387)
Other comprehensive income for the year, net of tax	(2,947)	4,923	(4,387)
Total comprehensive income for the year	41,842	37,810	26,638
Attributable to:			
Owners of the Company	41,248	37,254	26,033
NCI	594	556	605
	41,842	37,810	26,638

## C. CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		As at 31 December		
		2016	2017	2018
	Note	HK\$'000	HK\$'000	HK\$'000
<b>Non-current assets</b>				
Property, plant and equipment	18	37,447	48,964	41,378
Deposits paid for property, plant and equipment	19	257	703	507
Deferred tax assets	30	362	–	–
		<u>38,066</u>	<u>49,667</u>	<u>41,885</u>
<b>Current assets</b>				
Inventories	20	30,486	44,870	52,205
Trade receivables	21	76,221	79,733	91,038
Prepayments, deposits and other receivables	19	5,716	10,501	9,522
Amount due from a director	22	10,268	34,604	–
Amounts due from related companies	23	19,684	19,237	–
Pledged bank deposits	24	–	–	2,760
Bank and cash balances	24	27,967	20,372	17,872
		<u>170,342</u>	<u>209,317</u>	<u>173,397</u>
<b>Current liabilities</b>				
Trade payables	25	47,024	58,607	51,210
Other payables and accruals	25	20,065	21,009	15,862
Deposits receipt in advance	25	1,850	1,122	3,009
Dividend payables		–	–	1,846
Amount due to a director	22	128	147	–
Amount due to a NCI shareholder	26	96	106	–
Finance lease payables	27	621	620	454
Bank borrowings	28	22,921	24,678	44,561
Unsecured loan	29	6,105	–	–
Current tax liabilities		6,614	3,334	682
		<u>105,424</u>	<u>109,623</u>	<u>117,624</u>

**APPENDIX I****ACCOUNTANTS' REPORT ON  
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		As at 31 December		
	<i>Note</i>	<b>2016</b> <i>HK\$'000</i>	<b>2017</b> <i>HK\$'000</i>	<b>2018</b> <i>HK\$'000</i>
<b>Net current assets</b>		<u>64,918</u>	<u>99,694</u>	<u>55,773</u>
<b>Total assets less current liabilities</b>		<u>102,984</u>	<u>149,361</u>	<u>97,658</u>
<b>Non-current liabilities</b>				
Finance lease payables	27	1,154	818	96
Deferred tax liabilities	30	<u>41</u>	<u>198</u>	<u>198</u>
		<u>1,195</u>	<u>1,016</u>	<u>294</u>
<b>NET ASSETS</b>		<u><u>101,789</u></u>	<u><u>148,345</u></u>	<u><u>97,364</u></u>
<b>Capital and reserves</b>				
Share capital	32	43,081	58,657	1
Reserves	33	<u>57,994</u>	<u>88,718</u>	<u>96,788</u>
		101,075	147,375	96,789
NCI		<u>714</u>	<u>970</u>	<u>575</u>
<b>TOTAL EQUITY</b>		<u><u>101,789</u></u>	<u><u>148,345</u></u>	<u><u>97,364</u></u>

## D. STATEMENTS OF FINANCIAL POSITION

		As at 31 December 2018
	<i>Note</i>	<i>HK\$'000</i>
<b>CURRENT ASSETS</b>		
Amount due from ultimate parent		— <sup>(i)</sup>
		<u>                    </u>
<b>Capital and reserves</b>		
Share capital	32	— <sup>(i)</sup>
Retained earnings		— <sup>(ii)</sup>
		<u>                    </u>
<b>TOTAL EQUITY</b>		—
		<u>                    </u>

<sup>(i)</sup> Represent the share capital and amount due from ultimate parent of HK\$0.01.

<sup>(ii)</sup> The Company has not commenced business since its incorporation to the date of this Prospectus.

## E. CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Share capital <i>HK\$'000</i>	Statutory surplus reserve <i>HK\$'000</i> <i>(note 33(b)(i))</i>	Foreign currency translation reserve <i>HK\$'000</i> <i>(note 33(b)(ii))</i>	Other reserve <i>HK\$'000</i> <i>(note 33(b)(iii))</i>	Retained earnings <i>HK\$'000</i>	Total <i>HK\$'000</i>	NCI <i>HK\$'000</i>	Total equity <i>HK\$'000</i>
At 1 January 2016	10,200	1,046	(512)	–	26,712	37,446	120	37,566
Issue of shares	32,881	–	–	–	–	32,881	–	32,881
Profit and total comprehensive income for the year	–	–	(2,947)	–	44,195	41,248	594	41,842
Transfer	–	686	–	–	(686)	–	–	–
Dividend paid ( <i>note 16</i> )	–	–	–	–	(10,500)	(10,500)	–	(10,500)
At 31 December 2016 and 1 January 2017	43,081	1,732	(3,459)	–	59,721	101,075	714	101,789
Issue of shares	15,576	–	–	–	–	15,576	–	15,576
Profit and total comprehensive income for the year	–	–	4,923	–	32,331	37,254	556	37,810
Transfer	–	162	–	–	(162)	–	–	–
Dividend paid ( <i>note 16</i> )	–	–	–	–	(6,530)	(6,530)	(300)	(6,830)
At 31 December 2017 and 1 January 2018	58,657	1,894	1,464	–	85,360	147,375	970	148,345
Issue of shares	12,001	–	–	–	–	12,001	–	12,001
Profit and total comprehensive income for the year	–	–	(4,387)	–	30,420	26,033	605	26,638
Arising from reorganisation	(70,657)	–	–	70,657	–	–	–	–
Transfer	–	139	–	–	(139)	–	–	–
Dividend paid ( <i>note 16</i> )	–	–	–	–	(88,620)	(88,620)	(1,000)	(89,620)
At 31 December 2018	1	2,033	(2,923)	70,657	27,021	96,789	575	97,364

## F. STATEMENTS OF CHANGES IN EQUITY

	Share capital <i>HK\$'000</i>	Retained earnings <i>HK\$'000</i>	Total <i>HK\$'000</i>
On incorporation	— <sup>(i)</sup>	—	— <sup>(i)</sup>
Profit and total comprehensive income for the year	—	— <sup>(ii)</sup>	—
At 31 December 2018	—	—	—

<sup>(i)</sup> Represent the share capital of HK\$0.01.

<sup>(ii)</sup> The Company has not commenced business since its incorporation to the date of this Prospectus.

## G. CONSOLIDATED STATEMENTS OF CASH FLOWS

		Year ended 31 December		
		2016	2017	2018
	Note	HK\$'000	HK\$'000	HK\$'000
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>				
Profit before tax		54,152	40,908	38,366
Adjustments for:				
Allowance for doubtful debts	21	–	421	–
Allowance/(reversal of allowance) for inventories, net		719	(2,218)	(3)
Depreciation	18	3,958	8,113	9,791
Reversal of fair value loss on derivative financial instruments	10	(5,375)	–	–
Property, plant and equipment write-off	10	–	30	–
Net (gain)/losses on disposal of property, plant and equipment	10	(110)	256	702
Realised loss on disposal of derivative financial instruments	10	3,676	–	–
Finance income	11	(154)	(159)	(52)
Finance expenses	11	719	1,099	2,074
Operating profit before working capital changes		57,585	48,450	50,878
Increase in trade receivables		(21,599)	(3,914)	(11,410)
Increase in inventories		(6,658)	(9,398)	(9,714)
(Increase)/decrease in prepayments, deposits and other receivables		(2,900)	(4,423)	752
Increase/(decrease) in trade payables		21,420	9,277	(5,529)
Increase/(decrease) in other payables and accruals		10,369	(114)	(4,556)
Increase/(decrease) in deposits receipt in advance		977	(728)	1,887
Cash generated from operations		59,194	39,150	22,308
Income taxes paid		(5,241)	(10,770)	(9,986)
Net cash generated from operating activities		53,953	28,380	12,322
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>				
Deposits paid		(271)	(680)	(278)
Purchases of property, plant and equipment		(32,945)	(16,291)	(4,786)
Proceeds from disposals of property, plant and equipment		775	445	179
Payment for settlement of derivative financial instruments	10	(3,676)	–	–
Interest received	11	12	18	36
Decrease/(increase) in amounts due from related companies		204	588	(1)
Increase in amount due from a director		(10,268)	(24,336)	(32,772)
Net cash used in investing activities		(46,169)	(40,256)	(37,622)

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	<i>Note</i>	<b>Year ended 31 December</b>		
		<b>2016</b>	<b>2017</b>	<b>2018</b>
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>				
Finance expenses paid	11, 36(b)	(719)	(1,099)	(2,074)
Repayment of finance lease payables	36(b)	(880)	(991)	(888)
Proceeds from issue of shares		32,881	15,576	12,000
Unsecured loan raised	36(b)	7,043	8,868	–
Repayment of unsecured loan	36(b)	(608)	(15,248)	–
Bank borrowings raised	36(b)	10,000	15,000	50,172
Repayment of bank borrowings	36(b)	(5,381)	(12,168)	(30,100)
Dividends paid	36(b)	(10,500)	(6,830)	(1,000)
(Decrease)/increase in amount due to a director	36(b)	(19,166)	38	(146)
Increase/(decrease) in amount due to a NCI shareholder	36(b)	75	10	(106)
Increase in pledged bank deposits		–	–	(2,760)
		<u>12,745</u>	<u>3,156</u>	<u>25,098</u>
<b>EFFECT OF FOREIGN EXCHANGE RATE CHANGES</b>		<u>(1,452)</u>	<u>2,200</u>	<u>(2,109)</u>
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<u>19,077</u>	<u>(6,520)</u>	<u>(2,311)</u>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR</b>		<u>7,626</u>	<u>26,703</u>	<u>20,183</u>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>		<u><u>26,703</u></u>	<u><u>20,183</u></u>	<u><u>17,872</u></u>
<b>ANALYSIS OF CASH AND CASH EQUIVALENTS</b>				
Bank and cash balances	24	27,967	20,372	17,872
Bank overdrafts	28	<u>(1,264)</u>	<u>(189)</u>	<u>–</u>
		<u><u>26,703</u></u>	<u><u>20,183</u></u>	<u><u>17,872</u></u>



**H. NOTES TO HISTORICAL FINANCIAL INFORMATION****1. GENERAL INFORMATION**

Kelfred Holdings Limited (the “Company”) was incorporated in the Cayman Islands on 20 April 2018 as an exempted company with limited liability. The address of its registered office is PO Box 1350, Clifton House, 75 Fort Street, Grand Cayman, KY1-1108, Cayman Islands. The address of its principal place of business is Room 1606, 16/F., Block B, New Trade Plaza, 6 On Ping Street, Sha Tin, New Territories, Hong Kong.

The Company is an investment holding company. The Company and its subsidiaries (collectively the “Group”) principally engaged in manufacturing and sales in eyewear products (the “Listing Business”). Details of the principal activities of its subsidiaries are set out below.

In the opinion of the directors of the Company, as at the date of this report, Conquer Holding Limited (“Conquer”), a company incorporated in the BVI, are the immediate and ultimate parents, and Mr. Kwok Kwan Fai, Mr. Kwok Kwan Yu and Ms. Chan Yin Wah are the ultimate controlling parties of the Company (the “Controlling Shareholders”) throughout the Track Record Period.

Upon completion of the Reorganisation and as at the date of this report, the Company had direct and indirect interests in the following subsidiaries.

Name of subsidiary	Date and place of incorporation/ establishment	Registered capital	Effective interests attributable to the Group	Principal activities
<b>Directly held by the Company</b>				
Fame Investment Limited ("Fame Investment")	10 April 2018 British Virgin Islands ("BVI")	United States Dollar ("USD") 50,000	100%	Investment holding
<b>Indirectly held by the Company</b>				
Kelfred Optical Limited ("Kelfred")	8 April 1986 Hong Kong	HK\$25,095,000	100%	Investment holding and trading and design of eyewear products
Optical Farm HK Limited ("Optical Farm")	10 December 2015 Hong Kong	HK\$20,000	100%	Sales of own-brand eyewear products
Central Designs (Hong Kong) Limited ("Central Designs")	3 September 2014 Hong Kong	HK\$240,000	50%	Trading of eyewear products
Huaqing Glasses (Shenzhen) Company Limited (*) 華清眼鏡(深圳)有限公司 ("Shenzhen Huaqing")	6 April 2005 The People's Republic of China ("PRC")	HK\$58,560,000	100%	Manufacturing of eyewear products
Yingtian Euro-Asia Enterprise Limited 鷹潭歐亞實業有限公司 ("Yingtian Euro-Asia")	31 May 2016 PRC	USD2,000,000	100%	Properties holding
Jiangxi Huaqing Glasses Co., Limited (*) 江西華清眼鏡有限公司 ("Jiangxi Huaqing")	31 May 2016 PRC	USD4,500,000	100%	Manufacturing of eyewear products

(\*) For identification purpose only.

Except for Fame Investment which is directly held by the Company, all subsidiaries are indirectly held by the Company.

All the companies now comprising the Group have adopted 31 December as their financial year end date.

The statutory financial statements of the companies, now comprising the Group, which were prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA by their respective statutory auditors as indicated below:

Name of Company	Financial years	Statutory auditors
Kelfred	Year ended 31 December 2016	Y.S. Kwong & Co. Certified Public Accountants
	Year ended 31 December 2017 and 2018	RSM Hong Kong
Optical Farm	For the period from 10 December 2015 (date of incorporation) to 31 December 2016	Y.S. Kwong & Co. Certified Public Accountants
	Year ended 31 December 2017 and 2018	RSM Hong Kong
Central Designs	Year ended 31 December 2016	Y.S. Kwong & Co. Certified Public Accountants
	Year ended 31 December 2017 and 2018	RSM Hong Kong

No audited financial statements have been prepared for the Company, Fame Investment, Shenzhen Huaqing, Jiangxi Huaqing and Yingtan Euro-Asia, as it is not required to issue audited financial statements under the statutory requirements, the relevant rules and regulations in the Cayman Islands, the BVI and the PRC.

## 2. BASIS OF PRESENTATION AND PREPARATION OF HISTORICAL FINANCIAL INFORMATION

### Basis of presentation

Prior to the incorporation of the Company and the completion of the reorganisation (the "Reorganisation") as more fully explained in the paragraph headed "Corporate Reorganisation" in Appendix V "Statutory and general information" to the Prospectus, the Listing Business was carried out by companies now comprising the Group (collectively the "Operating Companies"). The Operating Companies were collectively controlled by the Controlling Shareholders throughout the Track Record Period.

Pursuant to the Reorganisation, the Operating Companies together with the Listing Business are transferred to and held by the Company through Fame Investment. The Company has not been involved in any other business prior to the Reorganisation and does not meet the definition of a business. The Reorganisation is merely a reorganisation of the Listing Business and does not result in any change of business substance. Accordingly, the consolidated financial information of the companies now comprising the Group is presented using the carrying values of the Listing Business for all periods presented. For the purpose of this report, the Financial Information has been prepared in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 Accountants' Reports on Historical Financial Information in Investment Circulars issued by the HKICPA.

Intercompany transactions, balances and unrealised gains/losses on transactions between group companies are eliminated on consolidation.

There was no adjustment made to the net assets nor the net profit or loss of any companies now comprising the Group in order to achieve consistency of the Group's accounting policies.

### Basis of preparation

The Historical Financial Information has been prepared in accordance with HKFRSs, accounting principles generally accepted in Hong Kong and the applicable disclosures provision of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the disclosure requirements of the Hong Kong Companies Ordinance (Cap. 622).

The Historical Financial Information has been prepared under the historical cost convention, unless mentioned otherwise in the accounting policies below.

The preparation of the Historical Financial Information in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Financial Information are disclosed in note 5.

### **3. ADOPTION OF NEW AND REVISED HKFRSs**

The Historical Financial Information has been prepared in accordance with HKFRSs. HKFRSs comprise Hong Kong Financial Reporting Standards ("HKFRS"); Hong Kong Accounting Standards ("HKAS"); and Interpretations issued by the HKICPA which are effective for the accounting periods beginning on 1 January throughout the Historical Financial Information including HKFRS 15 Revenue from Contracts with Customers, except that the Group adopted HKFRS 9 on 1 January 2018 and applied HKAS 39 for the two years ended 31 December 2017. The accounting policies for financial instruments under HKFRS 9 are set out in note 4 below.

The Group applied HKFRS 9 in accordance with the transition provision set out in HKFRS 9, i.e. applied the classification and measurements (including impairments) retrospectively to instruments that have not been derecognised as at 1 January 2018 and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The adoption of HKFRS 9 does not have significant impact to the classification and measurement of financial assets of the Group, and the Group has not recognised additional impairment allowance upon the initial recognition of HKFRS 9 on 1 January 2018.

Up to date of issue of the report, the HKICPA has issued a number of new and revised HKFRSs which are not yet effective for the year ended 31 December 2018 and which have not been adopted in the Historical Financial Information. The directors anticipate that the new and revised HKFRSs will be adopted in the Group's financial statements when they become effective.

	<b>Effective for accounting periods beginning on or after</b>
Amendments to HKFRSs Annual Improvements to HKFRSs 2015-2017 Cycle	1 January 2019
Amendments to HKAS 19 Plan Amendments, Curtailment or Settlement	1 January 2019
Amendments to HKAS 28 Long-term Interests in Associates and Joint Ventures	1 January 2019
Amendments to HKFRS 10 and HKAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined
Amendments to HKFRS 9 Prepayments Features with Negative Compensation	1 January 2019
HKFRS 16 Leases	1 January 2019
HKFRS 17 Insurance Contracts	1 January 2021
HK (IFRIC) 23 Uncertainty over Income Tax Treatments	1 January 2019
Amendments to HKFRS 3 Definition of a Business	1 January 2020
Amendments to HKAS 1 and HKAS 8 Definition of Material	1 January 2020

The Group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far the Group considers that these new and revised HKFRSs may result in changes in accounting policies and are unlikely to have a significant impact on the Group's financial performance and financial position, except as described below.

**HKFRS 16 Leases**

HKFRS 16 replaces HKAS 17 Leases and related interpretations. The new standard introduces a single accounting model for lessees. For lessees the distinction between operating and finance leases is removed and lessees will recognise right-of-use assets and lease liabilities for all leases (with optional exemptions for short-term leases and leases of low-value assets). HKFRS 16 carries forward the accounting requirements for lessors in HKAS 17 substantially unchanged. Lessors will therefore continue to classify leases as operating or financing leases.

HKFRS 16 is effective for annual periods beginning on or after 1 January 2019. The Group plan to adopt the transitional provisions in HKFRS 16 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019 and will not restate the comparatives.

The Group plan to use the exemptions allowed by the standard on lease contracts whose lease terms end within 12 months as of the date of initial application and excludes initial direct costs from measuring the right-of-use assets and liabilities for leases with less than 12 months of lease term.

Based on a preliminary assessment, the standard will affect primarily the accounting for the Group's operating leases. The Group's property leases are currently classified as operating leases and the lease payments (net of any incentives received from the lessor) are recognised as an expense on a straight-line basis over the lease term. Under HKFRS 16 the Group may need to recognise and measure a liability at the present value of the future minimum lease payments and recognise a corresponding right-of-use asset for these leases. The interest expense on the lease liability and depreciation on the right-of-use asset will be recognised in profit or loss. The Group's assets and liabilities will increase and the timing of expense recognition will also be impacted as a result.

As of 31 December 2018, the Group had undiscounted operating lease commitments of HK\$7,386,000 as lessee as set out in note 34 to the Historical Financial Information. These leases are expected to be recognised as lease liabilities, with corresponding right-of-use assets, once HKFRS 16 is adopted. The amounts will be adjusted for the effects of discounting and the transition reliefs available to the Group.

Other than the recognition of lease liabilities and right-of-use assets, the Group expects that the adoption of HKFRS 16, as compared to the current accounting policies of the Group, will not have significant net impact on the financial position and performance of the Group.

Based on a preliminary assessment, the standard will affect primarily the accounting for the Group's operating leases. The Group's rented premises are currently classified as operating leases and the lease payments (net of any incentives received from the lessor) are recognised as an expense on a straight-line basis over the lease term. Under HKFRS 16 the Group may need to recognise and measure a liability at the present value of the future minimum lease payments and recognise a corresponding right-of-use asset for these leases. The interest expense on the lease liability and depreciation on the right-of-use asset will be recognised in profit or loss. The Group's assets and liabilities will increase and the timing of expense recognition will also be impacted as a result.

As disclosed in note 34, the Group's future minimum lease payments under non-cancellable operating leases as at 31 December 2016, 2017 and 2018 amounted to approximately HK\$2,470,000, HK\$8,569,000 and HK\$7,386,000 respectively. These leases are expected to be recognised as lease liabilities, with corresponding right-of-use assets, once HKFRS 16 is adopted. The amounts will be adjusted for the effects of discounting and the transition reliefs available to the Group.

**4. SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies applied in the preparation of the Historical Financial Information are set out below.

**(a) Consolidation**

The Historical Financial Information include the financial statements of the Company and its subsidiaries made up to 31 December. Subsidiaries are entities over which the Group has control. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group has power over an entity when the Group has existing rights that give it the current ability to direct the relevant activities, i.e. activities that significantly affect the entity's returns.

When assessing control, the Group considers its potential voting rights as well as potential voting rights held by other parties. A potential voting right is considered only if the holder has the practical ability to exercise that right.

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date the control ceases.

The gain or loss on the disposal of a subsidiary that results in a loss of control represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that subsidiary and (ii) the Company's share of the net assets of that subsidiary and any accumulated foreign currency translation reserve relating to that subsidiary.

Intra-group transactions, balances and unrealised profits are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests represent the equity in subsidiaries not attributable, directly or indirectly, to the Company. Non-controlling interests are presented in the consolidated statements of financial position and consolidated statement of changes in equity within equity. Non-controlling interests are presented in the consolidated statement of profit or loss and consolidated statement of profit or loss and other comprehensive income as an allocation of profit or loss and total comprehensive income for the year between the non-controlling shareholders and owners of the Company.

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

In the Company's statements of financial position, the investment in a subsidiary is stated at cost less impairment losses, unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

**(b) Foreign currency translation****(i) Functional and presentation currency**

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The Historical Financial Information is presented in HKD, which is the Company's functional and presentation currency.

(ii) *Transactions and balances in each entity's financial statements*

Transactions in foreign currencies are translated into the functional currency on initial recognition using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the exchange rates at the end of each reporting period. Gains and losses resulting from this translation policy are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items that are measured at fair value in foreign currencies are translated using the exchange rates at the dates when the fair values are determined.

When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

(iii) *Translation on consolidation*

The results and financial position of all the Group entities that have a functional currency different from the Company's presentation currency are translated into the Company's presentation currency as follows:

- Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- Income and expenses are translated at average exchange rates for the period (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the exchange rates on the transaction dates); and
- All resulting exchange differences are recognised in other comprehensive income and accumulated in the foreign currency translation reserve.

On consolidation, exchange differences arising from the translation of monetary items that form part of the net investment in foreign entities are recognised in other comprehensive income and accumulated in the foreign currency translation reserve. When a foreign operation is sold, such exchange differences are reclassified to consolidated profit or loss as part of the gain or loss on disposal.

(c) **Property, plant and equipment**

Property, plant and equipment, including buildings and leasehold land (classified as finance leases) held for use in the production or supply of goods or services, or for administrative purpose, are stated in the consolidated statements of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are recognised in profit or loss during the period in which they are incurred.

Depreciation of property, plant and equipment is calculated at rates sufficient to write off their cost less their residual values over the estimated useful lives on a straight-line basis as follows:

Land and buildings	Over the lease term
Leasehold improvements	3 to 5 years
Plant and machinery	5 years
Furniture and fixtures	5 years
Office equipment	2 to 5 years
Computer equipment	2 to 5 years
Motor vehicles	2 to 5 years

The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at the end of each reporting period.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in profit or loss.

**(d) Leases**

*(i) Operating leases*

Leases that do not substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as operating leases. Lease payments (net of any incentives received from the lessor) are recognised as an expense on a straight-line basis over the lease term.

Prepaid land lease payments are stated at cost and subsequently amortised on the straight-line basis over the remaining term of the lease.

*(ii) Finance leases*

Leases that substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as finance leases. At the commencement of the lease term, a finance lease is capitalised at the lower of the fair value of the leased asset and the present value of the minimum lease payments, each determined at the inception of the lease.

The corresponding liability to the lessor is included in the statement of financial position as finance lease payable. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Assets under finance leases are depreciated the same as owned assets.

**(e) Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average basis. The cost of finished goods and work in progress comprises raw materials, direct labour and an appropriate proportion of all production overhead expenditure, and where appropriate, subcontracting charges. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

**(f) Recognition and derecognition of financial instruments**

Financial assets and financial liabilities are recognised in the consolidated statements of financial position when the Group becomes a party to the contractual provisions of the instruments.

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire; the Group transfers substantially all the risks and rewards of ownership of the assets; or the Group neither transfers nor retains substantially all the risks and rewards of ownership of the assets but has not retained control on the assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss.

**(g) Financial assets**

Financial assets are recognised when a group of entity becomes a party to the contractual provisions of the assets.

Financial assets are initially measured at fair value. Transactions costs that are directly attributable to the acquisition or issue of financial assets (other than financial assets at fair value through profit or loss) are added to the fair value of the financial assets, as appropriate, on initial recognition.

Purchases or sales of financial assets that require delivery of assets within a timeframe established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e. the date that the Group commits to purchase or sell the asset.

**Under HKAS 39**

Financial assets are classified as loans and receivables.

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial assets, or where appropriate, a shorter period to the net carrying amount on initial recognition.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, amount due from a director, amounts due from related companies, pledged bank deposits and cash and bank balances) are measured at amortised cost using the effective interest method, less any identified impairment losses.

Interest income is recognised by applying the effective interest rate, except for short-term receivable where the recognition of interest would be immaterial.

**Under HKFRS 9**

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order 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.



Financial assets that meet the following conditions are subsequently measured at fair value through other comprehensive income ("FVTOCI"):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; 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.

All other financial assets are subsequently measured at fair value through profit or loss ("FVTPL"), except that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 Business Combinations applies.

All recognised financial assets of the Group that are within the scope of HKFRS 9 (including trade and other receivables, amount due from a director, amounts due from related companies and cash and bank balances) are subsequently measured at amortised costs.

*Amortised cost and effective interest method*

The effective interest method is a method of calculating the amortised cost of financial assets and of allocating interest income over the relevant periods.

The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses ("ECL"), through the expected life of the financial assets, or where appropriate, a shorter period, to the gross carrying amount of the financial assets on initial recognition.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. On the other hand, the gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost and at FVTOCI. For financial assets other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired. For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial assets. If, in subsequent reporting periods, the credit risk on the credit-impaired financial assets improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset.

Interest income is recognised in profit or loss using the effective interest method and is included in the "other income" line item.

**(h) Trade and other receivables**

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment.

**(i) Cash and cash equivalents**

For the purpose of the statements of cash flows, cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value. Bank overdrafts which are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents.

**(j) Financial liabilities and equity instruments**

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under HKFRSs. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

**(i) Borrowings**

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

**(ii) Trade and other payables**

Trade and other payables are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

**(iii) Equity instruments**

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

**(k) Revenue recognition**

Revenue is measured based on the consideration specified in a contract with a customer. The Group recognises revenue when a good or service is transferred to the customer. i.e. when the customer obtains control of the asset.

Revenue from the sale of eyewear products is recognised at a point in time when control of the goods has transferred to customer upon delivery of eyewear products.

Interest income is recognised on a time-proportion basis using the effective interest method.

Sub-rental income is recognised on a straight-line basis over the lease term.

Product services fee income is recognised over time when the services are rendered.

**(l) Employee benefits****(i) Employee leave entitlements**

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the end of the reporting period.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) *Pension obligations*

The Group contributes to defined contribution retirement schemes which are available to all employees in Hong Kong. Contributions to the schemes by the Group and employees are calculated as a percentage of employees' basic salaries. The retirement benefit scheme cost charged to profit or loss represents contributions payable by the Group to the funds.

(iii) *Termination benefit*

Termination benefits are recognised at the earlier of the dates when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs and involves the payment of termination benefits.

(m) **Government grants**

A government grant is recognised when there is reasonable assurance that the Group will comply with the conditions attaching to it and that the grant will be received.

Government grants relating to income are deferred and recognised in profit or loss over the period to match them with the costs they are intended to compensate.

Government grants that become receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

(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 capitalised as part of the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(o) **Taxation**

Income tax represents the sum of the current tax and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit recognised in profit or loss because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

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

Deferred tax liabilities are recognised for taxable temporary differences arising on investment in a subsidiary, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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 is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax is recognised in profit or loss, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity.

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

**(p) Impairment of non-financial assets**

The carrying amounts of non-financial assets are reviewed at each reporting date for indications of impairment and where an asset is impaired, it is written down as an expense through the consolidated statements of profit or loss to its estimated recoverable amount. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. If this is the case, recoverable amount is determined for the cash-generating unit to which the asset belongs. Recoverable amount is the higher of value in use and the fair value less costs of disposal of the individual asset or the cash-generating unit.

Value in use is the present value of the estimated future cash flows of the asset/cash-generating unit. Present values are computed using pre-tax discount rates that reflect the time value of money and the risks specific to the asset/cash-generating unit whose impairment is being measured.

Impairment losses for cash-generating units are allocated pro rata amongst the other assets of the cash-generating unit. Subsequent increases in the recoverable amount caused by changes in estimates are credited to profit or loss to the extent that they reverse the impairment.

**(q) Impairment of financial assets**

Financial assets are assessed for indicators of impairment at the end of the reporting period.

**Under HKAS 39**

Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition, the estimated future cash flows of the (group of) financial asset(s) have been affected.

In addition, for trade receivables that are assessed not to be impaired individually, the Group assesses them collectively for impairment, based on the Group's past experience of collecting payments, an increase in the number of the delayed payments in the portfolio past the credit period of 30 to 120 days, observable changes in economic conditions that correlate with default on receivables, etc.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

For all other financial assets, the carrying amount is directly reduced by the impairment loss.

For financial assets measured at amortised cost, if the amount of the impairment loss decreases in a subsequent period and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed (either directly or by adjusting the allowance account for trade receivables) through profit or loss. However, the reversal must not result in a carrying amount that exceeds what the amortised cost of the financial asset would have been had the impairment not been recognised at the date the impairment is reversed.

#### **Under HKFRS 9**

Impairment charges on the Group's financial assets at amortised cost are calculated based on ECL model, which is recognised in the profit or loss.

The Group recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on the financial asset has not increased significantly since initial recognition, the Group measures the loss allowance for that financial asset at an amount equal to 12-month ECL ("12m ECL"). The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition instead of on evidence of a financial asset being credit-impaired at the reporting date or an actual default occurring.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant asset. In contrast, 12m ECL represents the portion of lifetime ECL that is expected to result from default events on a financial asset that are possible within 12 months after the end of each reporting period.

The Group considers trade receivables do not have a significant financing component. Therefore, the Group elected to apply the simplified approach permitted by HKFRS 9, which requires lifetime ECL to be recognised from initial recognition of the receivables.

Impairment charges on the Group's other financial assets at amortised cost, including amount due from a director, amounts due from related companies, pledged bank deposits and cash and bank balances, are provided on the three-stage model under the general approach, which requires to recognised 12m ECL on initial recognition; and lifetime ECL if the credit risk of the borrower increased significantly by considering reasonable and supportable information that is relevant and available without due cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

#### *Significant increase in credit risk*

In assessing whether the credit risk on a financial asset has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial asset as at the reporting date with the risk of a default occurring on the financial asset as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Group's debtors operate, obtained from financial analysts and governmental bodies, as well as consideration of various external sources of actual and forecast economic information that relate to the Group's core operations.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor; and
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Group assumes that the credit risk on a financial asset has not increased significantly since initial recognition if the financial asset is determined to have low credit risk at the reporting date. A financial asset is determined to have low credit risk if i) the financial asset has a low risk of default (i.e. no default history), ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

#### *Definition of default*

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that receivables that meet either of the following criteria are generally not recoverable.

- when there is a breach of financial covenants by the counterparty; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

The Group also considers that default has occurred when the asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

#### *Credit-impaired financial assets*

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the issuers or the borrower;
- a breach of contract, such as default or past due event;
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; or
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

*Measurement and recognition of ECL*

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information.

For financial assets, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on amortised cost of the financial assets.

*Write-off policy*

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are past due over one year, whichever is earlier. Financial assets written off may still be subject to enforcement activities in order to comply with the Group's recovery procedures. Any recoveries made are recognised in profit or loss.

**(r) Provisions and contingent liabilities**

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a present legal or constructive obligation arising as a result of a past event, 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.

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 is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

**(s) Events after the reporting period**

Events after the reporting period that provide additional information about the Group's position at the end of the reporting period are adjusting events and are reflected in the Historical Financial Information. Events after the reporting period that are not adjusting events are disclosed in the notes to the Historical Financial Information when material.

**5. CRITICAL JUDGEMENTS AND KEY ESTIMATES****Critical judgements in applying accounting policies**

In the process of applying the accounting policies, the directors have made the following judgements that have the most significant effect on the amounts recognised in the consolidated financial statements (apart from those involving estimations, which are dealt with below).

**(a) Derecognition of financial assets – Receivable purchase arrangement**

The Group has entered into a receivable purchase arrangement with a bank on its trade receivables. As at 31 December 2016, 2017 and 2018, the Group has determined that it has transferred substantially all risks and rewards of ownership associated with certain trade receivables factored to the bank under the arrangement. Accordingly, the relevant trade receivables with an aggregate carrying amount of approximately HK\$9,422,000, HK\$14,350,000 and HK\$16,577,000 are fully derecognised. Further details are given in note 21 to the Historical Financial Information.

(b) *Consolidation of entity with 50% equity interest holding*

Although the Group owns 50% of the equity interest in Central Designs, it is able to gain power over more than 50% of the voting rights by virtue of shareholders agreement with Mr. Russell Dobney ("Mr. Russell") who owns the remaining 50% equity interest in Central Designs. Fame Investment and Mr. Russell entered into a shareholders' agreement pursuant to which Mr. Kwok Kwan Fai was appointed as the chairman of the board of directors and general meetings of Central Designs and is entitled to have a second or casting votes in the case of an equality of votes at a board meeting and/or general meetings of Central Designs. As such, the financial results of Central Designs will be consolidated into the consolidated financial statement of our Group as our Group is able to gain over than 50% of the voting rights in the board meetings and general meetings of Central Designs.

**Key sources of estimation uncertainty**

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

(a) *Property, plant and equipment and depreciation*

The Group's management determines the estimated useful lives, residual values and related depreciation charges for the Group's property, plant and equipment. This estimate is based on the historical experience of the actual useful lives and residual values of property, plant and equipment of similar nature and functions. The Group's management will revise the depreciation charge where useful lives and residual values are different to those previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned.

The carrying amounts of property, plant and equipment carried as assets in the consolidated statements of financial position are set out in note 18 to the Historical Financial Information.

(b) *Write-down of inventories*

Management reviews the condition of inventories of the Group and makes provision against obsolete and slow-moving inventory items which are identified as no longer suitable for sale or use. Management estimates the net realisable value for such inventories based primarily on the latest invoice price and current market conditions. The Group carries out an inventory review at the end of each reporting period and makes provision against obsolete and slow-moving items. Management reassesses the estimation at the end of each reporting period.

The identification of obsolete and slow-moving inventory items requires the use of judgements and estimates. Where the expectation is different from the original estimate, such difference will impact on the carrying values of inventories and the write-down of inventories recognised in the periods in which such estimates have been changed. The carrying amount of inventories carried as assets in the consolidated statements of financial position are set out in note 20 to the Historical Financial Information.

(c) *Impairment loss for bad and doubtful debts*

**Under HKAS 39**

The Group makes impairment loss for bad and doubtful debts based on assessments of the recoverability of the trade and other receivables, including the current creditworthiness and the past collection history of each debtor. Impairments arise where events or changes in circumstances indicate that the balances may not be collectible. The identification of bad and doubtful debts, in particular of a loss event, requires the use of judgement and estimates. Where the actual result is different from the original estimate, such difference will impact the carrying value of the trade and other receivables and doubtful debt expenses in the year in which such estimate has been changed.

As at 31 December 2016, 2017, accumulated impairment loss for bad and doubtful debts amounted to approximately nil and HK\$421,000 respectively.



**Under HKFRS 9**

The impairment allowance for trade receivables is based on assumptions about risk of default and expected credit loss rates. The Group adopts judgement in making these assumptions and selecting inputs for computing such impairment loss, broadly based on the available customers' historical data, existing market conditions including forward looking estimates at the end of reporting period.

As at 31 December 2018, no impairment loss for bad and doubtful debts was made.

*(d) Income taxes*

The Group is subject to income taxes in Hong Kong and the Mainland China. Significant estimates are required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. During the Track Record Period, approximately HK\$9,363,000, HK\$8,021,000 and HK\$7,341,000 of income tax was charged to profit or loss based on the estimated profit.

**6. FINANCIAL RISK MANAGEMENT**

The Group's activities expose it to a variety of financial risks: foreign currency risk, credit risk, liquidity risk and interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

**(a) Foreign currency risk**

The Company does not have any exposure to foreign currency risk at the end of the Track Record Period.

The Group has certain exposure to foreign currency risk as most of its business transactions, assets and liabilities are principally denominated in HKD, RMB and USD. The Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. The Group monitors its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

The Group's foreign currency denominated financial assets and liabilities, translated into HKD at the prevailing closing rates at the end of the Track Record Period, are as follows:

	Exposure to foreign currencies				Total HK\$'000
	HKD HK\$'000	RMB HK\$'000	USD HK\$'000	Others HK\$'000	
<b>At 31 December 2016</b>					
Financial assets	17,571	4,119	113,550	1,416	136,656
Financial liabilities	28,454	63,849	2,733	921	95,957
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>At 31 December 2017</b>					
Financial assets	27,478	907	128,787	1,261	158,433
Financial liabilities	30,689	66,633	5,283	1,127	103,732
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>At 31 December 2018</b>					
Financial assets	4,795	28,812	80,685	236	114,528
Financial liabilities	47,750	60,281	3,394	676	112,101
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

*Sensitivity analysis*

The following table indicates the approximate change in the Group's profit after tax and retained earnings in response to reasonably possible changes in the foreign exchange rates of RMB and USD to which the Group has significant exposure at the end of the Track Record Period. The sensitivity analysis of the Group's exposure to foreign currency risk at the end of the reporting period has been determined based on the change taking place at the beginning of the year and held constant throughout the year.

	<b>Increase/ (decrease) in foreign exchange rates</b>	<b>Effect on profit after tax and retained earnings HK\$'000</b>	<b>Effect on equity HK\$'000</b>
<b>Group</b>			
<b>At 31 December 2016</b>			
RMB	6%	(1,084)	(1,714)
RMB	(6%)	1,084	1,714
USD	1%	920	–
USD	(1%)	(920)	–
<b>At 31 December 2017</b>			
RMB	8%	(1,619)	(2,490)
RMB	(8%)	1,619	2,490
USD	1%	1,029	–
USD	(1%)	(1,029)	–
<b>At 31 December 2018</b>			
RMB	4%	171	(1,098)
RMB	(4%)	(171)	1,098
USD	1%	645	–
USD	(1%)	(645)	–

The sensitivity analysis of the Group's exposure to currency risk at the reporting date has been determined based on the hypothetical changes in foreign exchange rates which are commensurate with historical fluctuation during the Track Record Period. The assumed changes represent directors' assessment of reasonably possible changes in foreign exchange rates over the period until the next reporting date.

**(b) Credit risk**

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group.

The credit risk of the Group's financial assets, which comprise trade and other receivables, amount due from a director, amounts due from related companies, pledged bank deposits and cash and bank balances, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

**(i) Credit risk of trade receivables**

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. The Group's largest customer shared nearly 26.1%, 38.6% and 19.3% respectively of the trade receivables at the end of each reporting period. The Group has policies and procedures to monitor the collection of the trade receivables to limit the exposure to the non-recovery of the receivables and there is no recent history of default for the Group's largest customer.

The Group also has policies in place to ensure that sales are made to customers with an appropriate credit history and has entered with Compagnie Francaise D' Assurance Pour Le Commerce Extérieur ("COFACE") to insure against credit risk. COFACE is a credit insurer operating globally, offering companies solutions to protect them against the risk of financial default of their clients, both in their domestic and export market. The insurance contract with COFACE was expired on 31 August 2018 and starting from 1 September 2018, the Group engaged Atradius Credito y Caucion SA de Seguros y Reaseguros ("Atradius"), who offers a broader scope on regional insured that met the Group's need. In this regard, the directors consider that the Group's credit risk is significantly reduced.

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 customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within 30 days to 120 days from the date of billing. Normally, the Group does not obtain collateral from customers.

The Group measures loss allowances for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the 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 Group's different customer bases.

Expected credit 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 Group's view of economic conditions over the expected lives of the receivables.

**As at 1 January 2018 (upon the adoption of HKFRS 9)**

	Ageing					Total
	Current	1 – 60 days	61-120 days	121-180 days	Over 180 days	
Expected credit loss rate	0.0440%	0.0609%	0.5244%	3.1293%	4.3374%	0.0585%
Gross carrying amount (HK\$'000)	63,187	15,968	417	1	160	79,733
Expected credit losses (HK\$'000)	28	10	2	▲	7	47

▲ represent the amount less than HK\$1,000.

**As at 31 December 2018**

	Ageing					Total
	Current	1 – 60 days	61-120 days	121-180 days	Over 180 days	
Expected credit loss rate	0.0330%	0.0457%	0.3932%	2.3470%	3.2530%	0.1269%
Gross carrying amount (HK\$'000)	72,448	10,701	5,146	2,397	346	91,038
Expected credit losses (HK\$'000)	24	5	20	56	11	116

The directors of the Company consider that the expected credit losses calculated above are insignificant. Therefore, there is no impairment loss recognised in accordance with HKFRS 9 for trade receivables for the years ended 31 December 2017 and 2018.

(ii) *Credit risk of other receivables and amounts due from a director and related companies*

For other receivables and amounts due from a director and related companies, management makes periodic collective assessments as well as individual assessment on the recoverability of other receivables and amounts due from a director and related companies based on historical settlement records, past experiences and market information. As at 31 December 2017 and 2018, the credit assessment of other receivables and amounts due from a director and related companies was performed. The Group assessed that the expected credit losses for these receivables and amounts due from a director and related companies were not material under the 12-month expected losses method. In view of the history of cooperation with debtors and the collection history of the receivables, the management believe the credit risk inherent in the Group's outstanding other receivables balances and amounts due from a director and related companies is not significant. The expected credit loss rate is close to zero for other receivables for the two years ended 31 December 2017 and 2018. The expected credit loss rate for amounts due from a director and related companies is close to 1% for the year ended 31 December 2017 and is zero for the year ended 31 December 2018 as these balances have been fully settled during the year ended 31 December 2018.

(iii) *Credit risk of pledged bank deposits and cash and bank balances*

For pledged bank deposits and cash and bank balances, the Group has assessed that they are mainly placed with banks with high credit rating with no recent history of default in relation to these financial institutions and probability of defaults (of those banks) are low based on market information. The expected credit loss rate for the two years ended 31 December 2017 and 2018 is close to zero.

(c) **Liquidity risk**

The Group's policy is to regularly monitor its current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

The following tables show the remaining contractual maturities at the end of the reporting period of the Group, based on undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group can be required to pay.

Specifically, for term loan which contains a repayment on demand clause which can be exercised at the bank's sole discretion, the analysis shows the cash outflow based on the earliest period in which the Group can be required to pay, that is if the lenders were to invoke their unconditional rights to call the loan with immediate effect. The maturity analysis for other non-derivative financial liabilities is prepared based on the scheduled repayment dates.

	Maturity Analysis – undiscounted cash flows					
	Less than 1 year or on demand <i>HK\$'000</i>	Between 1 and 2 years <i>HK\$'000</i>	Between 2 and 5 years <i>HK\$'000</i>	Over 5 years <i>HK\$'000</i>	Total undiscounted cash flow <i>HK\$'000</i>	Carrying amount <i>HK\$'000</i>
<b>At 31 December 2016</b>						
Trade payables	47,024	–	–	–	47,024	47,024
Other payables and accruals	20,065	–	–	–	20,065	20,065
Amount due to a director	128	–	–	–	128	128
Amount due to a NCI shareholder	96	–	–	–	96	96
Finance lease payables	679	648	552	–	1,879	1,775
Bank borrowings ( <i>note</i> )	7,820	6,442	6,270	3,915	24,447	22,921
Unsecured loan	6,105	–	–	–	6,105	6,105
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>At 31 December 2017</b>						
Trade payables	58,607	–	–	–	58,607	58,607
Other payables and accruals	21,009	–	–	–	21,009	21,009
Amount due to a director	147	–	–	–	147	147
Amount due to a NCI shareholder	106	–	–	–	106	106
Finance lease payables	660	660	177	–	1,497	1,438
Bank borrowings ( <i>note</i> )	8,477	7,686	7,328	2,765	26,256	24,678
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

	Maturity Analysis – undiscounted cash flows					
	Less than 1 year or on demand <i>HK\$'000</i>	Between 1 and 2 years <i>HK\$'000</i>	Between 2 and 5 years <i>HK\$'000</i>	Over 5 years <i>HK\$'000</i>	Total undiscounted cash flow <i>HK\$'000</i>	Carrying amount <i>HK\$'000</i>
<b>At 31 December 2018</b>						
Trade payables	51,210	–	–	–	51,210	51,210
Other payables and accruals	15,862	–	–	–	15,862	15,862
Dividend payables	1,846	–	–	–	1,846	1,846
Finance lease payables	465	97	–	–	562	550
Bank borrowings <i>(note)</i>	23,987	17,156	3,605	1,630	46,378	44,561

*Note:*

Term loan with a repayment on demand clause is included in the “less than 1 year or on demand” time band in the above maturity analysis. Taking into account the Group’s financial position, the directors do not believe that it is probable that the bank will exercise its discretionary rights to demand immediate repayment. The directors believe that such term loan will be repaid in accordance with the scheduled repayment dates set out in the loan agreement.

**(d) Interest rate risk**

The Group is exposed to cash flow interest rate risk through the impact of rate changes on interest-bearing financial liabilities, mainly borrowings which carried interest at prevailing market interest rates. The Group currently does not use any derivative contracts to hedge its exposure to interest rate risk. However, the directors of the Company will consider hedging significant interest rate risk should the need arise.

The sensitivity analysis below has been determined based on the exposure to interest rate for borrowings at the end of each of the Track Record Period and assumed that the amount of liabilities outstanding at the end of each of the Track Record Period was outstanding for the whole year.

If interest rates had been 100 basis points higher/lower with all other variables held constant, the Group’s consolidated profit after tax for the years ended 31 December 2016, 2017 and 2018 would decrease/increase by approximately HK\$104,000, HK\$178,000 and HK\$325,000 respectively, arising mainly as a result of higher/lower interest expense on borrowings.

**(e) Categories of the Group’s financial instruments at the end of each reporting period**

	As at 31 December		
	2016 HK\$'000	2017 HK\$'000	2018 HK\$'000
<b>Financial assets:</b>			
Loans and receivables (including cash and cash equivalents)	136,656	158,433	–
Financial assets at amortised cost	–	–	114,528
<b>Financial liabilities:</b>			
Financial liabilities at amortised cost	95,957	103,732	112,101

**(f) Fair values**

The carrying amounts of the Group’s financial assets and financial liabilities as reflected in the consolidated statements of financial position approximate their respective fair values.

**7. FAIR VALUE MEASUREMENTS**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following disclosures of fair value measurements use a fair value hierarchy that categorises into three levels the inputs to valuation techniques used to measure fair value:

- Level 1 inputs: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.
- Level 2 inputs: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs: unobservable inputs for the asset or liability.

The Group's policy is to recognise transfers into and transfers out of any of the three levels as of the date of the event or change in circumstances that caused the transfer.

The Group's derivative financial instruments carried at fair value are categorised as falling under Level 2 of the fair value hierarchy.

Disclosure of valuation process used by the Group and valuation techniques and inputs used in fair value measurements at the end of the Track Record Period:

**Level 2 fair value measurements**

Description	Valuation technique	Inputs
Derivatives – foreign exchange forward contracts	Discounted cash flows	<ul style="list-style-type: none"> <li>• Foreign exchange rate</li> <li>• Discount rate</li> <li>• Liquidity risk</li> </ul>

During the Track Record Period, there were no changes in the valuation techniques used.

**8. REVENUE AND SEGMENT INFORMATION**

Revenue represents the amounts received and receivable from sales of eyewear products recognised at a point in time during the Track Record Period.

**Segment information**

The executive directors of the Company, being the chief operating decision maker, regularly review revenue analysis by customers and by locations. The executive directors of the Company considered the operating activities of designing, manufacturing and sales of eyewear products as a single operating segment. The operating segment has been identified on the basis of internal management reports prepared and is regularly reviewed by the executive directors of the Company. The executive directors of the Company review the overall results, assets and liabilities of the Group as a whole to make decisions about resources allocation. Accordingly, no analysis of this single operating segment is presented.

**Geographical information**

Revenue from external customers, based on location of delivery to customers is as follows:

	Year ended 31 December		
	2016	2017	2018
	HK\$'000	HK\$'000	HK\$'000
<b>Revenue</b>			
United States	21,963	17,916	20,577
United Kingdom	45,273	45,905	77,787
France	16,047	21,210	20,636
Italy	62,263	76,922	95,748
Hungary	19,217	16,288	22,122
Netherlands	85,299	102,088	75,727
Hong Kong	35,769	38,357	41,246
Others	32,165	44,089	67,251
	<u>317,996</u>	<u>362,775</u>	<u>421,094</u>

An analysis of the Group's non-current assets by their physical geographical location is as follows:

	As at 31 December		
	2016	2017	2018
	HK\$'000	HK\$'000	HK\$'000
Hong Kong	1,699	2,822	2,151
PRC	<u>35,748</u>	<u>46,142</u>	<u>39,227</u>
	<u>37,447</u>	<u>48,964</u>	<u>41,378</u>

**Information about major customers**

Revenue from a customer contributing over 10% of the total revenue of the Group is as follows:

	Year ended 31 December		
	2016	2017	2018
	HK\$'000	HK\$'000	HK\$'000
Customer a	87,654	81,615	120,938
Customer b	38,717	53,966	59,850
Customer c	89,008	100,208	81,541
Customer d	<u>34,310</u>	<u>N/A<sup>(i)</sup></u>	<u>47,425</u>

<sup>(i)</sup> The corresponding revenue did not contribute over 10% of the total revenue of the Group.

9. OTHER INCOME

	Year ended 31 December		
	2016	2017	2018
	HK\$'000	HK\$'000	HK\$'000
Government grants	50	544	408
Income from sales of scrap	185	318	81
Sub-rental income from a related company ( <i>note 37(a)</i> )	12	–	–
Product services fee income	1,392	1,492	1,886
Others	94	312	501
	<u>1,733</u>	<u>2,666</u>	<u>2,876</u>

The government grants were received with no condition attached by the Group's subsidiaries from the local government where they reside.

10. OTHER GAINS AND LOSSES

	Year ended 31 December		
	2016	2017	2018
	HK\$'000	HK\$'000	HK\$'000
Exchange gain/(loss), net	3,219	(686)	4,665
Reversal of fair value loss on derivative financial instruments	5,375	–	–
Net gain/(losses) on disposal of property, plant and equipment	110	(256)	(702)
Property, plant and equipment write-off	–	(30)	–
Realised loss on disposal of derivative financial instruments	(3,676)	–	–
	<u>5,028</u>	<u>(972)</u>	<u>3,963</u>

11. FINANCE COSTS, NET

	Year ended 31 December		
	2016	2017	2018
	HK\$'000	HK\$'000	HK\$'000
Finance income:			
Bank interest income	12	18	36
Interest income from a related company ( <i>note 37(a)</i> )	142	141	16
	<u>154</u>	<u>159</u>	<u>52</u>
Finance expenses:			
Interest on bank borrowings ( <i>note 36(b)</i> )	(502)	(715)	(1,460)
Finance leases charges ( <i>note 36(b)</i> )	(109)	(73)	(35)
Interest on factoring of trade receivables ( <i>note 36(b)</i> )	(108)	(311)	(579)
	<u>(719)</u>	<u>(1,099)</u>	<u>(2,074)</u>
Finance costs, net	<u>(565)</u>	<u>(940)</u>	<u>(2,022)</u>



## 12. INCOME TAX EXPENSES

	Year ended 31 December		
	2016	2017	2018
	HK\$'000	HK\$'000	HK\$'000
Current tax			
Hong Kong Profits Tax			
– Provision for the year	6,706	6,417	6,708
– Over provision in prior years			(28)
PRC Enterprise Income Tax (“PRC EIT”)			
– Provision for the year	1,909	1,067	1,030
– Under/(over) provision in prior years	3	2	(369)
	8,618	7,486	7,341
Deferred tax ( <i>note 30</i> )	745	535	–
	9,363	8,021	7,341

The Company was incorporated in the Cayman Islands and Fame Investment was incorporated in BVI that are tax exempted as no business carried in the Cayman Islands and the BVI under the tax laws of the Cayman Islands and the BVI.

Hong Kong Profits Tax has been provided at a rate of 16.5% on the estimated assessable profits during the years ended 31 December 2016 and 2017. On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the “Bill”) which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazette on the following day. Under the two-tiered profits tax rates regime, the first HK\$2 million of profits of qualifying corporations will be taxed at 8.25%, and profits above HK\$2 million will be taxed at 16.5%. The two-tiered profits tax rates regime has applied to Kelfred for its annual reporting periods ending on or after 1 January 2018.

Pursuant to the PRC EIT Law and the respective regulations, the subsidiaries which operate in the Mainland China are subject to corporate income tax at a rate of 25% on the taxable income. Preferential tax treatment is available to the Group's PRC subsidiary, Yingtan Euro-Asia, since it was qualified as a Small and Low-profit Enterprise for the years ended 31 December 2017 and 2018 and was subject to income tax at a preferential tax rate of 20%. Besides, pursuant to Caishui [2017] No. 43, Yingtan Euro-Asia was entitled to a further deduction of 50% of the tax income for the years ended 31 December 2017 and 2018.

Tax charge on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretation and practices in respect thereof.

The reconciliation between the income tax expenses and the product of profit before tax multiplied by the Hong Kong Profits Tax rate is as follows:

	Year ended 31 December		
	2016	2017	2018
	HK\$'000	HK\$'000	HK\$'000
Profit before tax	54,152	40,908	38,366
Tax at Hong Kong Profits Tax rates	8,935	6,750	6,165
Tax effect of income that is not taxable	(371)	(9)	(245)
Tax effect of expenses that are not deductible	126	893	1,445
Tax effect of temporary differences not recognised	–	–	(22)
Tax effect of tax loss not recognised	61	92	66
Tax effect of utilisation of tax losses not previously recognised	–	(1)	–
Tax concession	(40)	(74)	(32)
Under/(over) provision in prior years	3	2	(397)
Effect of different tax rates of subsidiaries	649	368	361
Income tax expenses	9,363	8,021	7,341

**13. PROFIT FOR THE YEAR**

The Group's profit for the Track Record Period is stated after charging/(crediting) the following:

	<b>Year ended 31 December</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Auditor's remuneration	157	250	241
Cost of inventories sold (*)	230,806	268,870	324,412
Allowance/(reversal of allowance) for inventories (included in cost of inventories sold), net	719	(2,218)	(3)
Allowance for doubtful debts	–	421	–
Depreciation	3,958	8,113	9,791
Exchange (gain)/loss, net	(3,219)	686	(4,665)
Listing expenses	–	3,209	7,120
Operating lease charges			
– Factories and staff quarters	1,728	1,626	1,896
– Office premises	323	420	420
– Directors' quarter	360	360	30
Net (gain)/losses on disposal of property, plant and equipment	(110)	256	702
Property, plant and equipment write-off	–	30	–
	<u>          </u>	<u>          </u>	<u>          </u>

(\*) Cost of inventories sold includes approximately HK\$43,570,000, HK\$61,183,000 and HK\$77,068,000 of staff costs, depreciation and operating lease charges which are also included in the respective total amounts disclosed above for each of these types of expenses for the years ended 31 December 2016, 2017 and 2018 respectively.

**14. EMPLOYEE BENEFIT EXPENSES INCLUDING DIRECTORS' EMOLUMENTS**

	<b>Year ended 31 December</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Salaries, bonus and allowances	56,742	70,727	83,887
Retirement benefit scheme contributions	2,548	6,249	12,160
Quarter expense	360	360	30
	<u>          </u>	<u>          </u>	<u>          </u>
	59,650	77,336	96,077
	<u>          </u>	<u>          </u>	<u>          </u>

**(a) Retirement benefit schemes**

The Group operates a mandatory provident fund scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for all qualifying employees in Hong Kong. The Group's contributions to the MPF Scheme are calculated at 5% of the salaries and wages subject to a monthly maximum amount of contribution of HKD1,500 (before 1 June 2014: HKD1,250) per employee and vest fully with employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries established in the PRC are members of a central pension scheme operated by the local municipal government. Each subsidiary is required to contribute certain percentage of the employees' basic salaries and wages to the central pension scheme to fund the retirement benefits. The local municipal government undertakes to assume the retirement benefits obligations of all existing and future retired employees of this subsidiary. The only obligation of the subsidiary with respect to the central pension scheme is to meet the required contributions under the scheme.

**(b) Five highest paid individuals**

The five highest paid employees of the Group during the Track Record Period include 3, 3 and 2 director(s) respectively, details of whose emoluments are reflected in the analysis shown in note 15. Details of the total emoluments paid to the remaining 2, 2 and 3 highest paid employees during the Track Record Period were as follows:

	<b>Year ended 31 December</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Salaries, bonus and allowances	1,078	996	1,427
Retirement benefit scheme contributions	36	34	49
	<u>1,114</u>	<u>1,030</u>	<u>1,476</u>

The emoluments fell within the following band:

	<b>Number of individuals</b>		
	<b>Year ended 31 December</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
Nil to HK\$1,000,000	<u>2</u>	<u>2</u>	<u>3</u>

During the Track Record Period, no emoluments were paid by the Group to the above highest paid individuals as (i) an inducement to join or upon joining the Group or (ii) as compensation for loss of office.

**15. BENEFITS AND INTERESTS OF DIRECTORS****(a) Directors' emoluments**

The remuneration of every director is set out below:

	<b>Fees</b>	<b>Salaries, bonus and allowances</b>	<b>Quarter expense</b>	<b>Retirement benefit scheme contributions</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Year ended 31 December 2016</b>					
Executive directors:					
Mr. Kwok Kwan Fai	–	1,800	–	18	1,818
Mr. Kwok Kwan Yu	–	1,830	–	18	1,848
	<u>–</u>	<u>3,630</u>	<u>–</u>	<u>36</u>	<u>3,666</u>
Non-executive directors:					
Ms. Chan Yin Wah	–	300	360	–	660
Mr. Kwok Mau Kwan	–	375	–	–	375
	<u>–</u>	<u>675</u>	<u>360</u>	<u>–</u>	<u>1,035</u>
	<u>–</u>	<u>4,305</u>	<u>360</u>	<u>36</u>	<u>4,701</u>
<b>Year ended 31 December 2017</b>					
Executive directors:					
Mr. Kwok Kwan Fai	–	1,708	–	18	1,726
Mr. Kwok Kwan Yu	–	1,708	–	18	1,726
	<u>–</u>	<u>3,416</u>	<u>–</u>	<u>36</u>	<u>3,452</u>
Non-executive directors:					
Ms. Chan Yin Wah	–	280	360	–	640
Mr. Kwok Mau Kwan	–	350	–	–	350
	<u>–</u>	<u>630</u>	<u>360</u>	<u>–</u>	<u>990</u>
	<u>–</u>	<u>4,046</u>	<u>360</u>	<u>36</u>	<u>4,442</u>

	Fees HK\$'000	Salaries, bonus and allowances HK\$'000	Quarter expense HK\$'000	Retirement benefit scheme contributions HK\$'000	Total HK\$'000
<b>Year ended 31 December 2018</b>					
Executive directors:					
Mr. Kwok Kwan Fai	–	1,586	–	20	1,606
Mr. Kwok Kwan Yu	–	1,586	–	20	1,606
	–	3,172	–	40	3,212
Non-executive directors:					
Ms. Chan Yin Wah	–	390	30	–	420
Mr. Kwok Mau Kwan	–	325	–	–	325
	–	715	30	–	745
	–	3,887	30	40	3,957

*Note:*

- (i) Mr. Kwok Kwan Fai was appointed as a director of the Company on 20 April 2018 and was re-designated as an executive director of the Company on 24 July 2018. He was also directors of Fame Investment, Kelfred, Optical Farm and Central Designs, respectively during the Track Record Period and the Group paid emoluments to him in his capacity as the directors of these subsidiaries before his appointment as the executive director of the Company on 24 July 2018.
- (ii) Mr. Kwok Kwan Yu was appointed as a director of the Company on 20 April 2018 and was re-designated as an executive director of the Company on 24 July 2018. He was also directors of Fame Investment, Kelfred, Optical Farm, Yingtan Euro-Asia and Jiangxi Huaqing, respectively during the Track Record Period and the Group paid emoluments to him in his capacity as the directors of these subsidiaries before his appointment as the executive director of the Company on 24 July 2018.
- (iii) Mr. Kwok Mau Kwan was appointed as non-executive director of the Company on 21 May 2018. He was also a director of Kelfred during the Track Record Period and the Group paid emoluments to him in his capacity as the director of this subsidiary before his appointment as the non-executive director of the Company on 21 May 2018.
- (iv) Ms. Chan Yin Wah was appointed as non-executive director of the Company on 24 July 2018. She was also directors of Fame Investment, Kelfred and Shenzhen Huaqing during the Track Record Period and the Group paid emoluments to her in her capacity as the directors of these subsidiaries before her appointment as the non-executive director of the Company on 24 July 2018.
- (v) Mr. Chan Hon Wah, Mr. Lee Wai Ming and Mr. Chu Kin Ming were appointed as independent non-executive directors of the Company on 22 June 2019. During the Track Record Period, the independent non-executive directors have not yet been appointed and received nil directors' remuneration in the capacity of directors.
- (vi) During the Track Record Period, no emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office. No director has waived or agreed to waive any emoluments during the Track Record Period.

**(b) Information about loans, quasi-loans and other dealings in favour of directors**

Save as disclosed in notes 22 and 23, there were no loans, quasi-loans and other dealings entered into between the Group and the directors in favour of the directors as at 31 December 2016, 2017 and 2018 or at any time during the Track Record Period.

**(c) Directors' material interests in transactions, arrangements or contracts**

Save as disclosed in note 37, there were no other significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted as at 31 December 2016, 2017 and 2018 or at any time during the Track Record Period.

**16. DIVIDENDS**

During the Track Record Period, the Company's subsidiaries made the following distributions to its then shareholders:

	Year ended 31 December					
	2016		2017		2018	
	Dividend per share HK\$	Total dividends HK\$'000	Dividend per share HK\$	Total dividends HK\$'000	Dividend per share HK\$	Total dividends HK\$'000
Dividends declared and paid/payable to its then shareholders during the Track Record Period by:						
Kelfred	3.50	10,500	2.08	6,230	26.67	80,000
Central Designs	–	–	2.50	600	8.33	2,000
Shenzhen Huaqing	–	–	–	–	–	7,620
		<u>10,500</u>		<u>6,830</u>		<u>89,620</u>

Save as the above, no dividend has been paid or declared by the Company since its date of incorporation.

**17. EARNINGS PER SHARE**

Earnings per share information is not presented as its inclusion, for the purpose of this Historical Financial Information, is not considered meaningful due to the Group Reorganisation and the basis of presentation of the results of the Group for the Track Record Period as further explained in note 2 to the Historical Financial Information.

**18. PROPERTY, PLANT AND EQUIPMENT****Group**

	Land and buildings HK\$'000	Leasehold improvements HK\$'000	Plant and machinery HK\$'000	Office equipment HK\$'000	Computer equipment HK\$'000	Furniture and fixtures HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
<b>Cost</b>								
At 1 January 2016	–	3,867	8,541	893	555	543	3,852	18,251
Additions	14,486	4,981	12,710	96	88	52	1,412	33,825
Disposals/write-off	–	–	(21)	(838)	–	–	(1,856)	(2,715)
Exchange differences	(743)	(485)	(1,157)	(8)	(32)	(3)	(44)	(2,472)
At 31 December 2016 and 1 January 2017	13,743	8,363	20,073	143	611	592	3,364	46,889
Additions	–	3,493	10,983	1,056	96	292	1,293	17,213
Disposals/write-off	–	–	(580)	–	(87)	(543)	(997)	(2,207)
Exchange differences	1,114	775	1,986	48	44	9	68	4,044
At 31 December 2017 and 1 January 2018	14,857	12,631	32,462	1,247	664	350	3,728	65,939
Additions	–	776	4,174	56	225	–	–	5,231
Disposals/write-off	–	–	(977)	–	–	(153)	–	(1,130)
Exchange differences	(743)	(624)	(1,731)	(65)	(37)	(5)	(51)	(3,256)
At 31 December 2018	14,114	12,783	33,928	1,238	852	192	3,677	66,784

# APPENDIX I

# ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION

	Land and buildings HK\$'000	Leasehold improvements HK\$'000	Plant and machinery HK\$'000	Office equipment HK\$'000	Computer equipment HK\$'000	Furniture and fixtures HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
<b>Accumulated depreciation and impairment</b>								
At 1 January 2016	–	1,869	2,538	820	470	471	1,836	8,004
Charge for the year	61	922	2,247	13	65	16	634	3,958
Disposals/write-off	–	–	(7)	(782)	–	–	(1,261)	(2,050)
Exchange differences	(3)	(159)	(265)	(3)	(26)	–	(14)	(470)
At 31 December 2016 and 1 January 2017	58	2,632	4,513	48	509	487	1,195	9,442
Charge for the year	359	1,988	5,307	94	46	57	262	8,113
Disposals/write-off	–	–	(387)	–	(85)	(516)	(488)	(1,476)
Exchange differences	17	281	535	7	36	1	19	896
At 31 December 2017 and 1 January 2018	434	4,901	9,968	149	506	29	988	16,975
Charge for the year	365	2,214	6,136	224	148	26	678	9,791
Disposals/write-off	–	–	(250)	–	–	–	–	(250)
Exchange differences	(35)	(314)	(697)	(15)	(29)	(1)	(19)	(1,110)
At 31 December 2018	764	6,801	15,157	358	625	54	1,647	25,406
<b>Net book value</b>								
At 31 December 2018	13,350	5,982	18,771	880	227	138	2,030	41,378
At 31 December 2017	14,423	7,730	22,494	1,098	158	321	2,740	48,964
At 31 December 2016	13,685	5,731	15,560	95	102	105	2,169	37,447

At 31 December 2016, 2017 and 2018 the carrying amount of motor vehicles and office equipment held by the Group under finance leases amounted to approximately HK\$1,638,000, HK\$1,995,000 and HK\$1,482,000 respectively.

## 19. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group As at 31 December		
	2016 HK\$'000	2017 HK\$'000	2018 HK\$'000
<b>Prepayments</b>			
Listing expenses	–	3,907	2,006
Administrative and operating expenses	35	457	401
	<u>35</u>	<u>4,364</u>	<u>2,407</u>
<b>Deposits</b>			
Deposits paid for property, plant and equipment	257	703	507
Customs deposits	–	–	467
Rental deposits	379	382	304
Trade deposits	222	–	1,616
Utility deposits	30	36	31
Others	36	–	–
	<u>924</u>	<u>1,121</u>	<u>2,925</u>
<b>Other receivables</b>			
Advances to staff	257	306	184
Rebates from suppliers	686	2,701	2,030
Export tax refundable	1,273	1,724	1,656
Property tax refundable	577	–	–
Raw materials to subcontractors	648	299	–
VAT receivables	1,572	629	518
Others	1	60	309
	<u>5,014</u>	<u>5,719</u>	<u>4,697</u>
	<u>5,973</u>	<u>11,204</u>	<u>10,029</u>
Non-current portion	257	703	507
Current portion	<u>5,716</u>	<u>10,501</u>	<u>9,522</u>
	<u>5,973</u>	<u>11,204</u>	<u>10,029</u>

## 20. INVENTORIES

	Group As at 31 December		
	2016 HK\$'000	2017 HK\$'000	2018 HK\$'000
Raw materials	4,142	10,080	11,011
Work in progress	11,435	26,522	27,788
Finished goods	13,855	4,404	9,292
Goods-in-transit	<u>1,054</u>	<u>3,864</u>	<u>4,114</u>
	<u>30,486</u>	<u>44,870</u>	<u>52,205</u>

## 21. TRADE RECEIVABLES

	Group As at 31 December		
	2016 HK\$'000	2017 HK\$'000	2018 HK\$'000
Trade receivables	76,221	80,154	91,038
Less: Allowance for doubtful debts	—	(421)	—
	<u>76,221</u>	<u>79,733</u>	<u>91,038</u>

The Group's credit terms generally range from 30 to 120 days. Each customer has a maximum credit limit. For new customers, payment in advance or cash on delivery is normally required. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by the directors.

The Group has entered into receivable purchase agreements with a bank for the factoring of trade receivables with certain designated customers. At 31 December 2016, 2017 and 2018, trade receivables factored to the bank aggregated to approximately HK\$9,422,000, HK\$14,350,000 and HK\$16,577,000 respectively, and all of which were derecognised from the consolidated statements of financial position because, in the opinion of the directors, the Group has transferred substantially all the risks and rewards of ownership in respect of the relevant factored receivables to the bank.

The aging analysis of trade receivables, based on the delivery date, and net of allowance for doubtful debts, is as follows:

	Group As at 31 December		
	2016 HK\$'000	2017 HK\$'000	2018 HK\$'000
Up to 60 days	53,869	63,541	65,000
61 to 120 days	17,170	14,043	16,655
121 to 180 days	4,224	1,988	6,526
Over 180 days	958	161	2,857
	<u>76,221</u>	<u>79,733</u>	<u>91,038</u>

The Group does not hold any collateral as security or other credit enhancements over these balances.

Prior to 1 January 2018, allowance for doubtful debts are recognised against trade receivables based on estimated irrecoverable amounts, determined by reference to individual customer's credit quality as under HKAS 39. In determining the recoverability of trade receivables, the management of the Group considers any change in the credit quality of the trade receivables from the initial recognition date to the end of each reporting period. In the opinion of management of the Group, except for the amount of approximately HK\$421,000 was impaired during the year ended 31 December 2017, the remaining trade receivables at the end of each reporting period are of good credit quality considering the high credibility of these customers, good track record with the Group and subsequent settlement, the management believes that no further impairment allowance is necessary in respect of the unsettled balances.

Starting from 1 January 2018, the Group applied simplified approach to provide the expected credit losses prescribed by HKFRS 9. The impairment methodology is set out in Note 4.

As part of the Group's credit risk management, the Group uses debtors' aging to assess the impairment for its customers because these customers consists of a large number of customers which share common risk characteristics that are representative of the customers' abilities to pay all amounts due in accordance with the contractual terms. Based on the judgement of management of the Group, the exposure to credit risk and ECL for trade receivables which are assessed collectively based on provision matrix is negligible at 31 December 2018.



The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort. The directors of the Company considered that the expected credit loss allowance is immaterial.

Movements in the allowance for doubtful debts for trade receivables are as follows:

	<b>Group As at 31 December</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At the beginning of the year	–	–	421
Allowance for doubtful debts	–	421	–
Amounts written off	–	–	(421)
	<u>–</u>	<u>–</u>	<u>(421)</u>
At the end of the year	<u>–</u>	<u>421</u>	<u>–</u>

As at 31 December 2016, 2017 and 2018, trade receivables of approximately HK\$18,486,000, HK\$16,546,000 and HK\$18,590,000 respectively were past due but not impaired. These relate to trade receivables from a number of independent customers of whom there is no recent history of default. The ageing analysis of the past due but not impaired trade receivables, based on past due dates, is as follows:

	<b>Group As at 31 December</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Up to 60 days	14,703	15,968	10,701
61 to 120 days	2,971	417	5,146
121 to 180 days	433	1	2,397
Over 180 days	379	160	346
	<u>18,486</u>	<u>16,546</u>	<u>18,590</u>

The carrying amounts of the Group's trade receivables are denominated in the following currencies:

	<b>Group As at 31 December</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
EUR	282	46	210
RMB	14,887	13,993	19,536
USD	61,052	65,694	71,292
	<u>76,221</u>	<u>79,733</u>	<u>91,038</u>

## 22. AMOUNTS DUE FROM/(TO) DIRECTORS

## Amount due from a director

		Group As at 31 December	
	2016 HK\$'000	2017 HK\$'000	2018 HK\$'000
Mr. Kwok Kwan Fai	10,268	34,604	–
Maximum balance	15,798	34,604	59,823

## Amount due to a director

		Group As at 31 December	
	2016 HK\$'000	2017 HK\$'000	2018 HK\$'000
Mr. Kwok Kwan Yu	128	147	–

The amounts due from/(to) directors are non-trade in nature, unsecured, interest free and have been fully settled prior to 31 December 2018.

## 23. AMOUNTS DUE FROM RELATED COMPANIES

		Group As at 31 December	
	2016 HK\$'000	2017 HK\$'000	2018 HK\$'000
Southern China International Ltd. ("Southern China") (note (i) and (ii))	19,677	19,237	–
Sungo International Limited ("Sungo") (note (iii))	7	–	–
	19,684	19,237	–

## Analysed as:

Name	Name of directors having beneficial interest	Maximum amount outstanding during the year ended 31 December		
		2016 HK\$'000	2017 HK\$'000	2018 HK\$'000
Southern China	Mr. Kwok Kwan Fai and Ms. Chan Yin Wah	20,712	19,708	19,266
Sungo	Mr. Kwok Kwan Fai and Ms. Chan Yin Wah	7	12	–

## Note:

- (i) The amount due from Southern China is denominated in HKD and non-trade in nature.

- (ii) As at 31 December 2016, 2017 and 2018, except for an amount of approximately HK\$8,988,000, HK\$7,952,000 and nil which was secured by its owned properties as mentioned in note 28 to the Historical Financial Information and interest bearing at floating interest rate, the remaining balances were unsecured and interest-free. The balance as at 31 December 2017 has been fully settled prior to 31 December 2018.
- (iii) The amount due from Sungo is denominated in HKD, unsecured, interest-free and has been fully settled prior to 31 December 2018.

#### 24. PLEDGED BANK DEPOSITS AND BANK AND CASH BALANCES

The Group's pledged bank deposits represented deposits pledged to a bank to secure banking facilities granted to the Group as mentioned in note 28 to the Historical Financial Information.

The carrying amounts of the Group's pledged bank deposits and bank and cash balances as at 31 December 2016, 2017 and 2018 are denominated in the following currencies:

	Group As at 31 December		
	2016 HK\$'000	2017 HK\$'000	2018 HK\$'000
HKD	248	2,069	4,703
RMB	5,950	1,546	6,510
USD	21,436	16,446	9,394
Others	333	311	25
	<u>27,967</u>	<u>20,372</u>	<u>20,632</u>

#### 25. TRADE AND OTHER PAYABLES AND ACCRUALS

	Group As at 31 December		
	2016 HK\$'000	2017 HK\$'000	2018 HK\$'000
Trade payables	<u>47,024</u>	<u>58,607</u>	<u>51,210</u>
Other payables and accruals			
Accrued staff costs	9,093	9,321	7,497
Accrued administrative and operating expenses	1,853	3,201	3,542
Purchases of property, plant and equipment	7,719	5,902	1,613
Accrued sales rebate to customers	1,018	1,770	1,832
Accrued various tax expenses	261	385	474
VAT payables	121	430	904
	<u>20,065</u>	<u>21,009</u>	<u>15,862</u>
Deposits receipt in advance	<u>1,850</u>	<u>1,122</u>	<u>3,009</u>
	<u>68,939</u>	<u>80,738</u>	<u>70,081</u>

The aging analysis of trade payables, based on the date of receipt of goods, is as follows:

	<b>Group As at 31 December</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Up to 60 days	37,519	47,034	42,194
61 to 90 days	5,647	7,511	7,162
91 to 180 days	3,428	3,796	1,416
Over 180 days	430	266	438
	<u>47,024</u>	<u>58,607</u>	<u>51,210</u>

The credit period ranges from 30 to 90 days.

The carrying amounts of the Group's trade and other payables and accruals are denominated in the following currencies:

	<b>Group As at 31 December</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
HKD	5,100	5,763	2,017
RMB	58,273	67,804	60,994
USD	4,493	6,232	6,394
Others	1,073	939	676
	<u>68,939</u>	<u>80,738</u>	<u>70,081</u>

**26. AMOUNT DUE TO A NCI SHAREHOLDER**

	<b>Group As at 31 December</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Amount due to a NCI shareholder			
– Mr. Russell Dobney	96	106	–
	<u>96</u>	<u>106</u>	<u>–</u>

The amount due to a NCI shareholder is non-trade in nature, unsecured, interest-free and has been fully settled prior to 31 December 2018.

## 27. FINANCE LEASE PAYABLES

	Minimum lease payments			Present value of minimum lease payments		
	Group			Group		
	As at			As at		
	31 December			31 December		
	2016	2017	2018	2016	2017	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within one year	679	660	465	621	620	454
In the second to fifth years, inclusive	1,200	837	97	1,154	818	96
	1,879	1,497	562	1,775	1,438	550
Less: Future finance charges	(104)	(59)	(12)	N/A	N/A	N/A
Present value of lease obligations	1,775	1,438	550	1,775	1,438	550
Less: Amount due for settlement within 12 months (shown under current liabilities)				(621)	(620)	(454)
Amount due for settlement after 12 months				1,154	818	96

It is the Group's policy to lease certain of its motor vehicles and office equipment under finance leases. The lease term is ranged from 3 to 5 years. As at 31 December 2016, 2017 and 2018, the average flat rate was 1.96%, 1.83% and 1.75% respectively. Interest rates are fixed at the contract dates and thus expose the Group to fair value interest rate risk. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments. At the end of each lease term, the Group has the option to purchase the motor vehicles and office equipment at nominal prices.

All finance lease payables are denominated in HKD.

## 28. BANK BORROWINGS

		Group As at 31 December		
	Note	2016 HK\$'000	2017 HK\$'000	2018 HK\$'000
Analysis by nature as:				
Term loans		21,657	24,489	44,561
Bank overdrafts		1,264	189	–
		<u>22,921</u>	<u>24,678</u>	<u>44,561</u>
Group A	(ii)	–	8,405	9,876
Group B	(iii)	10,253	4,474	3,707
Group C	(iv)	4,474	2,852	1,164
Group D	(v)	8,194	8,947	5,704
Group E	(vi)	–	–	20,000
Group F	(vii)	–	–	4,110
		<u>22,921</u>	<u>24,678</u>	<u>44,561</u>
The bank borrowings are repayable as follows*:				
Within one year		7,256	7,766	22,860
More than one year, but not exceeding two years		6,055	7,259	16,730
More than two years, but not exceeding five years		5,849	6,966	3,371
More than five years		3,761	2,687	1,600
		<u>22,921</u>	<u>24,678</u>	<u>44,561</u>
Less: Amount due for settlement within 12 months (shown under current liabilities)		<u>(7,256)</u>	<u>(7,766)</u>	<u>(22,860)</u>
Portion of bank loan that are due for repayment after one year but contain a repayment on demand clause (shown under current liabilities)		<u>15,665</u>	<u>16,912</u>	<u>21,701</u>

\* The amounts due are based on scheduled repayment date set out in the loan agreements.

## Note:

- (i) The carrying amounts of the Group's bank borrowings are denominated in HKD.
- (ii) Group A was secured by the following:
  - (a) Legal charges over the properties of Southern China as mentioned in note 23 to the Historical Financial Information;
  - (b) Joint and several personal guarantee executed by Mr. Kwok Kwan Fai, Mr. Kwok Kwan Yu, Mr. Kwok Mau Kwan and Ms. Chan Yin Wah; and

- (c) Legal charge over the property of Mr. Kwok Kwan Yu.
- (iii) Group B was secured by the following:
- (a) Legal charges over the properties of Southern China as mentioned in note 23 to the Historical Financial Information; and
- (b) Joint and several personal guarantee executed by Mr. Kwok Kwan Fai, Mr. Kwok Kwan Yu, Mr. Kwok Mau Kwan and Ms. Chan Yin Wah.
- (iv) Group C was secured by the following:
- (a) Corporate guarantee executed by The Hong Kong Mortgage Corporation Limited;
- (b) Joint and several personal guarantee executed by Mr. Kwok Kwan Fai, Mr. Kwok Kwan Yu, Mr. Kwok Mau Kwan and Ms. Chan Yin Wah; and
- (c) As agreed with the bank, the amount due will be fully settled upon Listing.
- (v) Group D was secured by the following:
- (a) Guarantee by the Government of the Hong Kong Special Administrative Region under Small and Medium Enterprise Loan Guarantee Scheme; and
- (b) Joint and several personal guarantee executed by Mr. Kwok Kwan Fai, Mr. Kwok Kwan Yu, Mr. Kwok Mau Kwan and Ms. Chan Yin Wah.
- (vi) Group E was secured by joint and several personal guarantee executed by Mr. Kwok Kwan Fai, Mr. Kwok Kwan Yu, Mr. Kwok Mau Kwan and Ms. Chan Yin Wah.
- (vii) Group F was secured by the following:
- (a) Security deed over deposit of not less than 1/3 of drawdown amount or 110% in other foreign currency as mentioned in note 24 to the Historical Financial Information; and
- (b) Joint and several personal guarantee executed by Mr. Kwok Kwan Fai, Mr. Kwok Kwan Yu, Mr. Kwok Mau Kwan and Ms. Chan Yin Wah.
- (viii) The securities and guarantees above will be released upon Listing and replaced by the corporate guarantee by the Company.
- (ix) The ranges of effective interest rates per annum on the Group's bank borrowings were as follows:

		Group As at 31 December	
	2016	2017	2018
Term loans	1.25%-5.50%	2.25%-5.50%	2.21%-5.50%
Bank overdrafts	Prime rate and 0.5% per annum over higher of prime rate or bank's cost of funding	0.5% per annum over higher of prime rate or bank's cost of funding	N/A

**29. UNSECURED LOAN**

The balance represented the unsecured interest free loan granted by Yujiang District People's Government for the purpose of promoting and encouraging the investment of merchants in Yujiang District. The unsecured loan is denominated in RMB and was fully repaid in December 2017.

**30. DEFERRED TAX**

	Derivative financial instruments HK\$'000	Property, plant and equipment HK\$'000	Inventories HK\$'000	Total HK\$'000
At 1 January 2016	887	(64)	265	1,088
(Charge)/Credit to profit or loss for the year ( <i>note 12</i> )	(887)	23	119	(745)
Exchange difference	—	—	(22)	(22)
At 31 December 2016 and 1 January 2017	—	(41)	362	321
(Charge)/Credit to profit or loss for the year ( <i>note 12</i> )	—	(157)	(378)	(535)
Exchange difference	—	—	16	16
At 31 December 2017, 1 January 2018 and 31 December 2018	—	(198)	—	(198)

The following is the analysis of the deferred tax balances (after offset) for statements of financial position purposes:

	As at 31 December		
	2016 HK\$'000	2017 HK\$'000	2018 HK\$'000
Deferred tax assets	362	—	—
Deferred tax liabilities	(41)	(198)	(198)
	321	(198)	(198)

As at 31 December 2016, 2017 and 2018, subsidiaries incorporated in Hong Kong have unused tax losses of approximately HK\$401,000, HK\$961,000 and HK\$1,360,000, respectively available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams. The losses may be carried forward indefinitely.

As at 31 December 2016, 2017 and 2018, the Group has estimated unused tax losses for subsidiaries incorporated in the PRC of approximately HK\$3,000, nil and nil respectively available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams.



As at 31 December 2016, 2017 and 2018, the Group's tax losses for subsidiaries incorporated in the PRC will expire in the following year:

	<b>31 December</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
In 2017	3	–	–

The Group's subsidiaries that are PRC tax resident are required to withhold the PRC withholding tax of 10% on the dividend payment to their non-PRC resident immediately holding company, registered in Hong Kong, when and if undistributed earnings are declared to be paid as dividends out of profits unless such dividend payment is qualified for the 5% reduced tax rate under the Arrangement between Mainland China and Hong Kong for the Avoidance of Double taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income ("PRC-HK DTA").

In the opinion of the Company's PRC legal advisor, pursuant to PRC-HK DTA, Kelfred was managed and controlled in Hong Kong and is qualified as a Hong Kong tax resident. Therefore, subject to the approval on the application of the Hong Kong resident certificate, it should be qualified to enjoy a reduced withholding tax rate of 5% on dividend distributed by those subsidiaries incorporated in the PRC.

At 31 December 2018, no deferred tax has been recognised for withholding tax that would be payable on the undistributed earnings that are subject to withholding tax of the Group's subsidiaries incorporated in the PRC. In the opinion of the directors, the Group's fund will be retained in the Mainland China for the expansion of the Group's operation, so it is not probable that these subsidiaries will distribute such earnings in the foreseeable future.

### 31. PARTICULARS OF THE SUBSIDIARIES

Particulars of the subsidiaries as at the date of this report are shown in page I-14.

The following table shows information on the subsidiary that has NCI material to the Group. The summarised historical financial information represents amounts before inter-company eliminations.

	<b>Central Designs</b>		
	<b>As at</b>		
	<b>31 December</b>		
<b>Name</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
Principal place of business/country of incorporation	Hong Kong	Hong Kong	Hong Kong
% of ownership interests/voting rights held by NCI	50%/50%	50%/50%	50%/50%
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Current assets	3,936	4,081	4,398
Current liabilities	(2,509)	(2,141)	(3,248)
Net assets	1,427	1,940	1,150
Accumulated NCI	714	970	575

	Year ended 31 December		
	2016	2017	2018
	HK\$'000	HK\$'000	HK\$'000
Revenue	7,935	8,911	9,374
Profit for the year	1,188	1,113	1,210
Total comprehensive income for the year	1,188	1,113	1,210
Profit allocated to NCI	594	556	605
Dividends paid to NCI	–	300	1,000
Net cash (used in)/generated from operating activities	(209)	939	2,481
Net cash generated from investing activities	— <sup>(i)</sup>	— <sup>(i)</sup>	— <sup>(i)</sup>
Net cash generated from/(used in) financing activities	74	(590)	(1,500)
Net (decrease)/increase in cash and cash equivalents	(135)	349	981

<sup>(i)</sup> Represent the amount less than HK\$1,000.

During the Track Record Period, the bank and cash balances of the Group's subsidiaries in the PRC denominated in RMB amounted to approximately HK\$5,934,000, HK\$1,521,000 and HK\$6,320,000, respectively. Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

### 32. SHARE CAPITAL

The Company was incorporated in the Cayman Islands with limited liability on 20 April 2018 with an authorised share capital of HK\$390,000 divided into 39,000,000 Shares of HK\$0.01 each, of which one share was allotted and issued as fully paid to the initial subscriber, who is the independent third party, at par. On the same date, the one share held by the initial subscriber was transferred to Conquer. Further details on the Company's share capital are set out in the section headed "Statutory and general information – A. Further information about our Company – 2. Changes in share capital of our Company" in Appendix V to the Prospectus.

For the purpose of the preparation of the consolidated statements of financial position, the balance of share capital as at 31 December 2016 and 2017 represents the aggregate of the paid up share capital of the subsidiaries comprising the Group held by the controlling shareholders of the Company prior to the Reorganisation.

For the purpose of the preparation of the consolidated statements of financial position, the balance of share capital as at 31 December 2018 represents the aggregate of the paid up share capital of the Company and Fame Investment held by the controlling shareholders of the Company prior to the Reorganisation.

The purposes of the issue of shares during the Track Record Period by the Group's subsidiaries are to cope with the business expansion and working capital requirements of the Group. Further details are set out in the section headed "History, Reorganisation and Group Structure" in the Prospectus.

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern and to maximise the return to the shareholders through the optimisation of the debt and equity balance.

The Group sets the amount of capital in proportion to risk. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the payment of dividends, issue new shares, buy back shares, raise new debts, redeem existing debts or sell assets to reduce debts.

The Group monitors capital using a gearing ratio, which is the Group's total debts (comprising finance lease payables and borrowings) over its total equity. The Group's policy is to keep the gearing ratio at a reasonable level. The Group's gearing ratios during the Track Record Period were 30.3%, 17.6% and 46.3%, respectively. The increase in the gearing ratio of the Group is primarily due to the increase in the balance of bank borrowings as at 31 December 2018.

### 33. RESERVES

#### (a) Group

The amounts of the Group's reserves and the movements therein are presented in the consolidated statements of profit or loss and other comprehensive income and consolidated statements of changes in equity.

#### (b) Nature and purpose of reserves

##### (i) Statutory surplus reserve

In accordance with the PRC Company Law and the articles of association of those group companies incorporated in the PRC, the group companies are required to appropriate 10% of their profits after tax, as determined in accordance with Accounting Standards for Business Enterprises and the Accounting System for Business Enterprises and other regulations applicable to group companies, to the statutory surplus reserve until such reserve reaches 50% of the registered capital of the group companies. The appropriation to the reserve can be used to offset previous years' losses, if any, and part of the statutory surplus reserve can be capitalised as the group companies' capital provided that the amount of such reserve remaining after the capitalisation shall not be less than 25% of the capital of the group companies.

##### (ii) Foreign currency translation reserve

The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 4(b) to the Historical Financial Information.

##### (iii) Other reserve

The other reserve of the Group represents the difference between the nominal value of shares of Kelfred, Optical Farm, Central Designs, Shenzhen Huaqing, Jiangxi Huaqing and Yingtan Euro-Asia acquired pursuant to the Group Reorganisation over the nominal value of the share capital of Fame Investment issued in exchange therefor.

### 34. LEASE COMMITMENTS

At 31 December 2016, 2017 and 2018, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	Group As at 31 December		
	2016 HK\$'000	2017 HK\$'000	2018 HK\$'000
Within one year	2,022	1,934	1,927
In the second to fifth years inclusive	448	6,371	5,459
After five years	—	264	—
	<u>2,470</u>	<u>8,569</u>	<u>7,386</u>

Operating lease payments represent rentals payable by the Group for its offices. Leases are negotiated for an average term of 3 years, 4 years and 4 years at 31 December 2016, 2017 and 2018, respectively and rentals are fixed over the lease terms and do not include contingent rentals.

## 35. CAPITAL COMMITMENTS

Capital commitments contracted for at the end of the Track Record Period but not yet incurred are as follows:

	Group As at 31 December		
	2016 HK\$'000	2017 HK\$'000	2018 HK\$'000
Property, plant and equipment	186	243	604

## 36. NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS

## (a) Major non-cash transaction

- (i) Additions to property, plant and equipment of approximately HK\$880,000, HK\$654,000 and nil respectively were financed by finance lease during the Track Record Period.
- (ii) Property, plant and equipment of approximately nil, HK\$268,000 and HK\$445,000 were reclassified from deposits paid for property, plant and equipment during the Track Record Period.
- (iii) Dividends declared of approximately HK\$10,500,000, HK\$6,830,000 and HK\$89,620,000 respectively were offset by the amounts due from a director and a related company of approximately nil, nil and HK\$86,623,000 respectively.

## (b) Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statements of cash flows as cash flows from financing activities.

	Non-cash changes						
	As at 1 January 2016 HK\$'000	Cash flows HK\$'000	Interest expenses HK\$'000	Acquisition of property, plant and equipment HK\$'000	Dividends declared HK\$'000 (note 16)	Foreign exchange movement HK\$'000	As at 31 December 2016 HK\$'000
Amount due to a director (note 22)	19,286	(19,166)	-	-	-	8	128
Amount due to a NCI shareholder (note 26)	21	75	-	-	-	-	96
Finance lease payables (note 27)	1,775	(989)	109	880	-	-	1,775
Bank borrowings (note 28)	17,038	5,273	610	-	-	-	22,921
Unsecured loan (note 29)	-	6,435	-	-	-	(330)	6,105
Dividend payables	-	(10,500)	-	-	10,500	-	-
	38,120	(18,872)	719	880	10,500	(322)	31,025

# APPENDIX I

# ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION

	Non-cash changes							
	As at 1 January 2017 HK\$'000	Cash flows HK\$'000	Interest expenses HK\$'000	Acquisition of property, plant and equipment HK\$'000	Dividends declared HK\$'000 (note 16)	Foreign exchange movement HK\$'000	Offsetting HK\$'000	As at 31 December 2017 HK\$'000
Amount due to a director (note 22)	128	38	–	–	–	(19)	–	147
Amount due to a NCI shareholder (note 26)	96	10	–	–	–	–	–	106
Finance lease payables (note 27)	1,775	(1,064)	73	654	–	–	–	1,438
Bank borrowings (note 28)	22,921	731	1,026	–	–	–	–	24,678
Unsecured loan (note 29)	6,105	(6,380)	–	–	–	275	–	–
Dividend payables	–	(6,830)	–	–	6,830	–	–	–
	<u>31,025</u>	<u>(13,495)</u>	<u>1,099</u>	<u>654</u>	<u>6,830</u>	<u>256</u>	<u>–</u>	<u>26,369</u>

	Non-cash changes							
	As at 1 January 2018 HK\$'000	Cash flows HK\$'000	Interest expenses HK\$'000	Acquisition of property, plant and equipment HK\$'000	Dividends declared HK\$'000 (note 16)	Foreign exchange movement HK\$'000	Offsetting HK\$'000	As at 31 December 2018 HK\$'000
Amount due to a director (note 22)	147	(146)	–	–	–	6	(7)	–
Amount due to a NCI shareholder (note 26)	106	(106)	–	–	–	–	–	–
Finance lease payables (note 27)	1,438	(923)	35	–	–	–	–	550
Bank borrowings (note 28)	24,678	17,844	2,039	–	–	–	–	44,561
Dividend payables	–	(1,000)	–	–	89,620	(151)	(86,623)	1,846
	<u>26,369</u>	<u>15,669</u>	<u>2,074</u>	<u>–</u>	<u>89,620</u>	<u>(145)</u>	<u>(86,630)</u>	<u>46,957</u>

## 37. RELATED PARTY TRANSACTIONS

- (a) In addition to the related party information disclosed elsewhere in the Historical Financial Information, the Group entered into the following material related party transactions.

	<i>Note</i>	Year ended 31 December		
		2016 <i>HK\$'000</i>	2017 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Sub-rental income from LVJ Studio Eyewear Limited ("LVJ Studio") ( <i>note 9</i> )	(i), (ii)	12	–	–
Sales of goods to LVJ Studio	(i)	39	–	–
Consultancy fee to Mr. Russell	(iii)	347	335	347
Office's rental expense to Ms. Lee Man Yee	(iv)	–	210	420
Interest income from Southern China ( <i>note 11</i> )		142	141	16
Directors' quarter expense to Southern China		360	360	30
		<u>          </u>	<u>          </u>	<u>          </u>

*Note:*

- (i) Mr. Kwok Kwan Fai has a 30% equity interest in LVJ Studio and was also a sole director of LVJ Studio since its incorporation. Mr. Kwok Kwan Fai had resigned as the sole director of LVJ Studio with effect from 15 March 2017 and also had disposed of his equity interest in LVJ Studio to an independent third party on 5 September 2017.
- (ii) Sub-rental income was received at a rate and term mutually agreed between the relevant parties involved in the transaction. The leasing agreement was expired on 31 January 2016.
- (iii) Mr. Russell is the NCI of Central Designs and the consultancy fee was paid at terms mutually agreed with the relevant parties involved.
- (iv) Ms. Lee Man Yee is wife of Mr. Kwok Kwan Fai.
- (b) Key management personnel remuneration is disclosed in notes 14 to 15.
- (c) Personal guarantees were provided by Mr. Kwok Kwan Fai, Mr. Kwok Kwan Yu, Mr. Kwok Mau Kwan and Ms. Chan Yin Wah against the banking facilities granted to the Group as mentioned in note 28 to the Historical Financial Information at nil consideration.
- (d) Legal charges over the properties owned by Southern China and Mr. Kwok Kwan Yu against banking facilities granted to the Group as mentioned in note 28 to the Historical Financial Information at nil consideration.
- (e) Corporate guarantees were provided by Southern China and Sungo against banking facilities granted to the Group as disclosed in note 28 to the Historical Financial Information at nil consideration.

**38. EVENT AFTER THE REPORTING PERIOD**

Subsequent to 31 December 2018 and up to the date of this report, the following significant events have taken place:

- (a) The companies now comprising the Group underwent and completed the Reorganisation on 20 June 2019 in preparation for the Listing. Further details of the Reorganisation are set out in the section headed "History, Reorganisation and Group Structure – Reorganisation" in the Prospectus.
- (b) On 22 June 2019, written resolutions were passed to effect the transactions as set out in the section headed "Statutory and general information – A. Further Information About Our Company – 4. Written Resolutions of Our Sole Shareholder" in Appendix V to the Prospectus, certain of which are disclosed as follows:
  - (i) The authorised share capital of the Company was increased from HK\$390,000 to HK\$20,000,000 by creation of additional 1,961,000,000 shares of HK\$0.01 each.
  - (ii) The Company's Share Option Scheme was adopted. Details of the Share Option Scheme are set out in the section headed "Statutory and General Information – E. Share Option Scheme" in Appendix V to the Prospectus.

**39. SUBSEQUENT FINANCIAL STATEMENTS**

No audited financial statements have been prepared by the Company or any of the companies now comprising the Group in respect of any period subsequent to 31 December 2018.

## APPENDIX II      UNAUDITED PRO FORMA FINANCIAL INFORMATION

For illustrative purpose only, the pro forma financial information prepared in accordance with paragraph 29 of Chapter 4 of the Listing Rules is set out herein to provide the investors with further information to assess the financial performance of the Group after taking into account the adjusted net tangible assets of the Group to illustrate the financial position of the Group after completion of the Share Offer and to illustrate the performance of the Group had the Public Offer been completed on 31 December 2018.

### A.      UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The unaudited pro forma financial information has been prepared, on the basis of the notes set out below, to illustrate how the Public Offer may have affected the net tangible assets attributable to owners of the Company had it occurred as of 31 December 2018. It has been prepared for illustrative purpose only and, because of its nature, may not give a true picture of the financial position of the Group.

	<b>Audited consolidated net tangible assets attributable to owners of the Company as of 31 December 2018<sup>(1)</sup> HK\$'000</b>	<b>Estimated net proceeds from the Share Offer<sup>(2)</sup> HK\$'000</b>	<b>Unaudited pro forma adjusted net tangible assets<sup>(3)</sup> HK\$'000</b>	<b>Unaudited pro forma adjusted net tangible assets per Share<sup>(5)</sup> HK\$</b>
<i>Based on Offer Price of HK\$1.0 per Share</i>	96,789	81,950	178,739	0.36
<i>Based on Offer Price of HK\$1.2 per Share</i>	<u>96,789</u>	<u>104,450</u>	<u>201,239</u>	<u>0.40</u>

*Notes:*

- (1) The audited consolidated net tangible assets attributable to owners of the Company as of 31 December 2018 is arrived from the audited consolidated net assets of HK\$96,789,000 as of 31 December 2018, as shown in the Accountants' Report, the text of which is set out in Appendix I to this prospectus.
- (2) The estimated net proceeds from the Share Offer are based on 125,000,000 Shares to be issued at indicative Offer Price of HK\$1.0 and HK\$1.2 per Share, respectively, being the low-end price and high-end price, after deduction of the estimated underwriting commission and other estimated listing expense payable by the Company of approximately HK\$30.7 million and HK\$33.2 million, respectively (excluding approximately HK\$12.3 million listing expenses which has been accounted for prior to 31 December 2018), and does not take into account of any Shares which may be granted under the Share Option Scheme.
- (3) Our property interests as of 30 April 2019 have been valued by Greater China Appraisal Limited. Details of the valuation in respect of these property interests were set out in Appendix III to this prospectus. The above unaudited pro forma adjusted consolidated net tangible assets attributable to owners of the Company does not take into account the surplus arising from the revaluation of our property interests. The revaluation surplus of these property interests was not incorporated in the consolidated financial information as of 31 December 2018, because our property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.



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## **APPENDIX II                      UNAUDITED PRO FORMA FINANCIAL INFORMATION**

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- (4) No adjustments have been made to the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company as at 31 December 2018 to reflect any trading results or other transactions of the Group entered into subsequent to 31 December 2018.
  
- (5) The unaudited pro forma adjusted consolidated net tangible assets attributable to owners of the Company per Share is calculated based on 500,000,000 Shares are issued and outstanding as set out in the section headed “Share Capital” of this prospectus assuming the Share Offer has been completed on 31 December 2018 but takes no account of any Shares which may be granted under the Share Option Scheme or any Shares which may be allotted and issued or repurchased by the Company pursuant to the general mandates for the allotment and issue or repurchase of the Shares as described in “Appendix V – Statutory and General Information” in this Prospectus.

**B.      ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION**

*The following is the text of a report, prepared for the sole purpose of inclusion in this prospectus, from the independent reporting accountant, RSM Hong Kong, Certified Public Accountants, Hong Kong.*



29th Floor  
Lee Garden Two  
28 Yun Ping Road  
Causeway Bay  
Hong Kong

29 June 2019

The Board of Directors  
**Kelfred Holdings Limited**

Dear Sirs,

We have completed our assurance engagement to report on the compilation of pro forma financial information of Kelfred Holdings Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) by the directors of the Company (the “Directors”) for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted net tangible assets of the Group as at 31 December 2018 and related notes as set out in Part A of Appendix II to the prospectus dated 29 June 2019 (the “Prospectus”) issued by the Company. The applicable criteria on the basis of which the Directors have compiled the unaudited pro forma financial information are specified in Part A of Appendix II to the Prospectus.

The unaudited pro forma financial information has been compiled by the Directors to illustrate the impact of the proposed share offer of the Company (the “Share Offer”) on the Group’s financial position as at 31 December 2018 as if the Share Offer had been taken place on the same date. As part of this process, information about the Group’s net tangible assets has been extracted by the Directors from the Group’s financial statements for the year ended 31 December 2018 as included in the Prospectus of the Company, on which an Accountant’s Report has been published.

**Directors’ Responsibility for the Unaudited Pro Forma Financial Information**

The Directors are responsible for compiling the unaudited pro forma financial information in accordance with paragraph 29 of Chapter 4 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 behaviour.

The firm applies Hong Kong Standard on Quality Control 1 “Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements” issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

**Reporting Accountant’s Responsibilities**

Our responsibility is to express an opinion, as required by paragraph 29(7) of Chapter 4 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 their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 “Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus” issued by the HKICPA. This standard requires that the reporting accountant plans and performs procedures to obtain reasonable assurance about whether the Directors have compiled the unaudited pro forma financial information in accordance with paragraph 29 of Chapter 4 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 the Prospectus is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 31 December 2018 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 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 unaudited 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 accountant's judgment, having regard to the reporting accountant's understanding of the nature of the Group, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Opinion**

In our opinion:

- (a) the unaudited pro forma financial information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Yours faithfully,

**RSM Hong Kong**

*Certified Public Accountants*

Hong Kong

*The following is the text of a letter and a valuation certificate prepared for the purpose of incorporation in this prospectus received from Greater China Appraisal Limited, an independent valuer, in connection with their valuation as at 30 April 2019 of the real property interests held by the Group.*

**GREATER CHINA APPRAISAL LIMITED**  
漢華評估有限公司

Room 2703, 27th Floor,  
Shui On Centre,  
6-8 Harbour Road,  
Wanchai, Hong Kong

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29 June 2019

Kelfred Holdings Limited  
Workshops 1605-1606, 16/F, Block B, New Trade Plaza,  
6 On Ping Street  
Sha Tin, New Territories  
Hong Kong

Dear Sir,

**Re: Valuation of a Parcel of Land and Buildings Constructed Thereon Located at 3 Hengtong Avenue, Yu Jiang (International) Optical Industrial Park, Yujiang District, Yingtan City, Jiangxi Province, the People's Republic of China (the "PRC")**

In accordance with the instructions from Kelfred Holdings Limited (the "Company") for us to value the captioned real property interests, details of which are provided in the enclosed valuation certificate, in the PRC, we confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of such real property interests as at 30 April 2019 (referred to as the "valuation date").

This letter which forms part of our valuation report explains the basis and methodology of valuation, and clarifies our assumptions made, title investigation of the real property and the limiting conditions.

**I. BASIS OF VALUATION**

The valuation is our opinion of the market value which we would define as intended to mean "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's-length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion".

Market value is understood as the value of an asset or liability estimated without regard to costs of sale or purchase (or transaction) and without offset for any associated taxes or potential taxes.

## **II. VALUATION METHODOLOGY**

Due to the nature of buildings and structures constructed, there are no readily identifiable market comparables to them. We have applied the cost method in valuing the real property on the basis of its depreciated replacement cost.

Depreciated replacement cost is defined as “the current cost of replacing an asset with its modern equivalent asset less deductions for physical deterioration and all relevant forms of obsolescence and optimization.” It is based on an estimate of the market value for the existing use of the land, plus the current cost of replacing the improvements, less deductions for physical deterioration and all relevant forms of obsolescence and optimization. The reported market value only applies to the whole of the complex or development as a unique interest, and no piecemeal transaction of the complex or development is assumed. The depreciated replacement cost of the real property interest is subject to adequate potential profitability of the concerned business.

## **III. ASSUMPTIONS**

Our valuation has been made on the assumption that the owner sells the real property interests on the open market in their existing states without the benefit of any deferred term contracts, leasebacks, joint ventures, management agreements or any similar arrangement which would serve to increase the values of the real property interests.

As the real property is held under long term land use rights, we have assumed that the owners of the real property interests have free and uninterrupted rights to use or transfer the real property interests for the whole of the unexpired term of the respective land use rights. In our valuation, we have assumed that the real property interests can be freely disposed of and transferred to third parties on the open market without any additional payment to the relevant government authorities.

All applicable zoning and use regulations and restrictions have been complied with unless nonconformity has been stated, defined, and considered in the valuation report.

No environment impact study has been ordered or made. Full compliance with applicable national, provincial and local environmental regulations and laws is assumed unless otherwise stated, defined, and considered in the report. It is also assumed that all required licences, consents, or other legislative or administrative authority from any local, provincial, or national government or private entity or organization either have been or can be obtained or renewed for any use which the report covers.

Other specific assumptions of the real property, if any, have been stated out in the footnotes of the valuation certificate.

**IV. TITLESHP INVESTIGATION**

We have been provided with copies of legal documents regarding the real property. However, due to the current registration system of the PRC, no investigation has been made for the legal title or any liability attached to the real property.

In the course of our valuation, we have relied upon the legal opinion given by the Company's PRC legal advisor – China Commercial Law Firm in relation to the legal title to the real property. All legal documents disclosed in this report are for reference only and no responsibility is assumed for any legal matters concerning the legal title to the real property set out in this report.

**V. LIMITING CONDITIONS**

We have inspected the exterior and, where possible, the interior of the real property. However, no structural survey has been made and we are therefore unable to report as to whether the real property is free from rot, infestation or any other structural defects. Also, no tests were carried out on any of the services.

We have not carried out detailed site measurements to verify the correctness of the areas in respect of the real property but have assumed that the areas shown on the relevant documents provided to us are correct. Based on our experience of valuation of similar real property, we consider the assumptions so made to be reasonable. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations.

No site investigations have been carried out to determine the suitability of the ground conditions or the services for any real property development. Our valuation is made on the basis that these aspects are satisfactory and that no extraordinary expenses or delays will be incurred during the construction period.

Having examined all relevant documentation, we have relied to a very considerable extent on the information provided and have accepted advice given to us by the Company on such matters as planning approvals, statutory notices, easements, tenure, occupation, development scheme, construction costs, site and floor areas and in the identification of the real property. We have had no reason to doubt the truth and accuracy of the information provided by the Company. We were also advised by the Company that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view, and have no reason to suspect that any material information has been withheld.

No allowances have been made in our valuation for any charges, mortgages or amounts owing on the real property valued nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the real property interests are free of encumbrances, restrictions and outgoing of an onerous nature which could affect their values.

Since the real property is located in a relatively under-developed market, the PRC, those assumptions are often based on imperfect market evidence. A range of values may be attributable to the real property depending upon the assumptions made. While we have exercised our professional judgment in arriving at the values, report readers are urged to consider carefully the nature of such assumptions which are disclosed in the valuation report and should exercise caution in interpreting the valuation report.

#### **VI. OPINION OF VALUE**

Our opinion of the market value of the real property is set out in the valuation certificate.

#### **VII. REMARKS**

Our valuation has been prepared in accordance with generally accepted valuation procedures and in compliance with the requirements contained in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited.

In valuing the real property interests, we have complied with the requirements contained in the HKIS Valuation Standards (2017 Edition) published by The Hong Kong Institute of Surveyors.

Site inspection of the real property was conducted in June 2018 by Daniel Tang (MRICS). The real property was maintained in a reasonable condition commensurate with their ages and uses and equipped with normal building services.

Unless otherwise stated, all monetary amounts herein are denominated in the currency of Renminbi (referred to as “RMB”).

We enclose herewith our valuation certificate.

This valuation report is issued subject to our General Service Conditions.

Yours faithfully,  
For and on behalf of  
**Greater China Appraisal Limited**  
**Mr. Gary Man**  
*Registered Professional Surveyor (G.P.)*  
*FRICS, FHKIS, MCIREA*  
Director

*Note:* Mr. Gary Man is a Chartered Surveyor who has more than 31 years of valuation experience in countries such as The PRC, Hong Kong, Singapore, Vietnam, Philippines and the Asia Pacific region.



## VALUATION CERTIFICATE

## Real property interests held for owner-occupied in the PRC

Real Property	Descriptions and Tenure	Particulars of Occupancy	Market Value in existing state as at 30 April 2019 <i>RMB</i>																																							
A parcel of land and buildings constructed thereon located at 3 Hengtong Avenue, Yu Jiang (International) Optical Industrial Park, Zhongtong Town, Yujiang District, Yingtan City, Jiangxi Province the PRC	<p>The real property comprises a parcel of land with site area of approximately 20,000 square metres and 11 buildings erected thereon. The buildings were completed in between 2005 and 2009.</p> <p>The buildings are of one to four storeys and have a total gross floor area of approximately 19,450.24 square metres.</p> <table><thead><tr><th>Name</th><th>Number of floor</th><th>Gross Floor Area (sq.m.)</th></tr></thead><tbody><tr><td>Factory 1</td><td>3</td><td>5,856.87</td></tr><tr><td>Factory 2</td><td>3</td><td>5,580.93</td></tr><tr><td>Dormitory</td><td>4</td><td>5,229.43</td></tr><tr><td>Dormitory</td><td>3</td><td>2,206.65</td></tr><tr><td>Office</td><td>1</td><td>114.80</td></tr><tr><td>Ancillary 1</td><td>1</td><td>14.40</td></tr><tr><td>Ancillary 2</td><td>1</td><td>50.63</td></tr><tr><td>Ancillary 3</td><td>1</td><td>81.81</td></tr><tr><td>Ancillary 4</td><td>1</td><td>10.27</td></tr><tr><td>Warehouse 1</td><td>1</td><td>5.08</td></tr><tr><td>Warehouse 2</td><td>1</td><td>299.37</td></tr><tr><td>Total</td><td></td><td>19,450.24</td></tr></tbody></table> <p>The land of the real property is held under a State-owned Land Use Rights Certificate for a term expiring on 6 June 2054 for industrial use.</p>	Name	Number of floor	Gross Floor Area (sq.m.)	Factory 1	3	5,856.87	Factory 2	3	5,580.93	Dormitory	4	5,229.43	Dormitory	3	2,206.65	Office	1	114.80	Ancillary 1	1	14.40	Ancillary 2	1	50.63	Ancillary 3	1	81.81	Ancillary 4	1	10.27	Warehouse 1	1	5.08	Warehouse 2	1	299.37	Total		19,450.24	Upon our inspection, the real property is currently occupied for workshop and ancillary purposes.	22,019,000 (Renminbi Twenty Two Million and Nineteen Thousand)
Name	Number of floor	Gross Floor Area (sq.m.)																																								
Factory 1	3	5,856.87																																								
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Total		19,450.24																																								

*Notes:*

- (i) According to an Investment Agreement entered between 鷹潭歐亞實業有限公司 (Ying Tan Euro-Asia Enterprise Limited) (“Ying Tan”), an indirect wholly-owned subsidiary of the Company, 江西展輝眼鏡有限公司 (Jiangxi Zhanhui Glasses Co., Ltd.) and the People’s Government of Yujiang County dated 8 June 2016, the real property was transferred to Ying Tan at a consideration of RMB13,000,000.
- (ii) According to a Real Estate Ownership Certificate, Gan (2016) Yu Jiang Xian Bu Dong Chan Quan Di 0001343 Hao, issued by the People’s Government of Yujiang County dated 5 May 2017, the land use right of the real property with a site area of approximately 20,000 square metres and the building ownership of the buildings with a total gross floor area of approximately 18,873.88 square metres are held by Ying Tan for a term expiring on 6 June 2054 for industrial use.
- (iii) According to eight proves issued by 鷹潭(余江)眼鏡產業園規劃建設局 (translated as “Construction Bureau of Yingtan (Yujiang) Optical Industry Park”) dated 9 July 2018, 2 January 2019 and 4 January 2019 respectively, seven buildings, with building names of Office, Ancillary 1, Ancillary 2, Ancillary 3, Ancillary 4, Warehouse 1 and Warehouse 2, respectively, as mentioned above, with total gross floor area of approximately 576.36 square metres are temporary buildings without building ownership certificate and are permitted to be used to 30 June, 2028.
- (iv) In the course of our valuation, we have not attributed any commercial value to the seven temporary buildings without building ownership certificate. However, for reference purpose, we are of the opinion that the total depreciated replacement cost of these buildings is RMB348,000 as at the valuation date.
- (v) We have been provided with a legal opinion regarding the real property interests issued by the Company’s PRC legal advisor which are summarised below:
  - a. Save for the seven temporary buildings, Ying Tan has obtained the Real Estate Ownership Certificate and is the legal owner of the real property.
  - b. Save for the seven temporary buildings, Ying Tan has the right to use, transfer, lease, mortgage or dispose of the real property.
  - c. Save for the seven temporary buildings, the real property is not subject to any liens, mortgage, lease, license, or any other third-party rights, conditions, orders, rules or restrictions.
  - d. As for the seven temporary buildings, according to Construction Work Permit Administration Measures, construction works with investment amount less than RMB300,000 or the construction area less than 300 square metres are not required to apply for a construction permit. Based on the relevant regulations and the proves issued by the Construction Bureau of Yingtan (Yujiang) Optical Industry Park, Ying Tan has the right to use the temporary buildings according to the uses stated in the proves and has the right to rent out all or part of such buildings or to deal with them legally.

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman Islands company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 20 April 2018 under the Companies Law. The Company's constitutional documents consist of its Amended and Restated Memorandum of Association (**Memorandum**) and its Amended and Restated Articles of Association (**Articles**).

## **1. MEMORANDUM OF ASSOCIATION**

- (a) The Memorandum provides, inter alia, that the liability of members of the Company is limited and that the objects for which the Company is established are unrestricted (and therefore include acting as an investment company), and that the Company shall have and be capable of exercising any and all of the powers at any time or from time to time exercisable by a natural person or body corporate whether as principal, agent, contractor or otherwise and, since the Company is an exempted company, that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.
- (b) By special resolution the Company may alter the Memorandum with respect to any objects, powers or other matters specified in it.

## **2. ARTICLES OF ASSOCIATION**

The Articles were adopted on 22 June 2019. A summary of certain provisions of the Articles is set out below.

### **(a) Shares**

#### **(i) *Classes of shares***

The share capital of the Company consists of ordinary shares.

#### **(ii) *Variation of rights of existing shares or classes of shares***

Subject to the Companies Law, if at any time the share capital of the Company is divided into different classes of shares, all or any of the special rights attached to any class of shares may (unless otherwise provided for by the terms of issue of the shares of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. The provisions of the Articles relating to general meetings shall mutatis mutandis apply to every such separate general meeting, but so that the necessary quorum (other than at an adjourned meeting) shall be not less than two persons together holding (or, in the case of a member being a

corporation, by its duly authorized representative) or representing by proxy not less than one-third in nominal value of the issued shares of that class. Every holder of shares of the class shall be entitled on a poll to one vote for every such share held by him, and any holder of shares of the class present in person or by proxy may demand a poll.

Any special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

*(iii) Alteration of capital*

The Company may, by an ordinary resolution of its members: (a) increase its share capital by the creation of new shares of such amount as it thinks expedient; (b) consolidate or divide all or any of its share capital into shares of larger or smaller amount than its existing shares; (c) divide its unissued shares into several classes and attach to such shares any preferential, deferred, qualified or special rights, privileges or conditions; (d) subdivide its shares or any of them into shares of an amount smaller than that fixed by the Memorandum; (e) cancel any shares which, at the date of the resolution, have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the shares so cancelled; (f) make provision for the allotment and issue of shares which do not carry any voting rights; and (g) change the currency of denomination of its share capital.

*(iv) Transfer of shares*

Subject to the Companies Law and the requirements of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”), all transfers of shares shall be effected by an instrument of transfer in the usual or common form or in such other form as the Board may approve and may be under hand or, if the transferor or transferee is a Clearing House or its nominee(s), under hand or by machine imprinted signature, or by such other manner of execution as the Board may approve from time to time.

Execution of the instrument of transfer shall be by or on behalf of the transferor and the transferee, provided that the Board may dispense with the execution of the instrument of transfer by the transferor or transferee or accept mechanically executed transfers. The transferor shall be deemed to remain the holder of a share until the name of the transferee is entered in the register of members of the Company in respect of that share.

The Board may, in its absolute discretion, at any time and from time to time remove any share on the principal register to any branch register or any share on any branch register to the principal register or any other branch register. Unless the Board otherwise agrees, no shares on the principal register shall be removed to any branch register nor shall shares on any branch register be removed to the principal register or

any other branch register. All removals and other documents of title shall be lodged for registration and registered, in the case of shares on any branch register, at the relevant registration office and, in the case of shares on the principal register, at the place at which the principal register is located.

The Board may, in its absolute discretion, decline to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or on which the Company has a lien. It may also decline to register a transfer of any share issued under any share option scheme upon which a restriction on transfer subsists or a transfer of any share to more than four joint holders.

The Board may decline to recognise any instrument of transfer unless a certain fee, up to such maximum sum as the Stock Exchange may determine to be payable, is paid to the Company, the instrument of transfer is properly stamped (if applicable), is in respect of only one class of share and is lodged at the relevant registration office or the place at which the principal register is located accompanied by the relevant share certificate(s) and such other evidence as the Board may reasonably require is provided to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The register of members may, subject to the Listing Rules, be closed at such time or for such period not exceeding in the whole 30 days in each year as the Board may determine.

Fully paid shares shall be free from any restriction on transfer (except when permitted by the Stock Exchange) and shall also be free from all liens.

**(v) *Power of the Company to purchase its own share***

The Company may purchase its own shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirement imposed from time to time by the Articles or any, code, rules or regulations issued from time to time by the Stock Exchange and/or the Securities and Futures Commission of Hong Kong.

Where the Company purchases for redemption a redeemable Share, purchases not made through the market or by tender shall be limited to a maximum price and, if purchases are by tender, tenders shall be available to all members alike.

**(vi) *Power of any subsidiary of the Company to own shares in the Company***

There are no provisions in the Articles relating to the ownership of shares in the Company by a subsidiary.

*(vii) Calls on shares and forfeiture of shares*

The Board may, from time to time, make such calls as it thinks fit upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium) and not by the conditions of allotment of such shares made payable at fixed times. A call may be made payable either in one sum or by instalments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding 20% per annum as the Board shall fix from the day appointed for payment to the time of actual payment, but the Board may waive payment of such interest wholly or in part. The Board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the money uncalled and unpaid or instalments payable upon any shares held by him, and in respect of all or any of the monies so advanced the Company may pay interest at such rate (if any) not exceeding 20% per annum as the Board may decide.

If a member fails to pay any call or instalment of a call on the day appointed for payment, the Board may, for so long as any part of the call or instalment remains unpaid, serve not less than 14 days' notice on the member requiring payment of so much of the call or instalment as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment. The notice shall name a further day (not earlier than the expiration of 14 days from the date of the notice) on or before which the payment required by the notice is to be made, and shall also name the place where payment is to be made. The notice shall also state that, in the event of non-payment at or before the appointed time, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the Board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, nevertheless, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares together with (if the Board shall in its discretion so require) interest thereon from the date of forfeiture until payment at such rate not exceeding 20% per annum as the Board may prescribe.

**(b) Directors****(i) *Appointment, retirement and removal***

At any time or from time to time, the Board shall have the power to appoint any person as a Director either to fill a casual vacancy on the Board or as an additional Director to the existing Board subject to any maximum number of Directors, if any, as may be determined by the members in general meeting. Any Director so appointed to fill a casual vacancy shall hold office only until the first general meeting of the Company after his appointment and be subject to re-election at such meeting. Any Director so appointed as an addition to the existing Board shall hold office only until the first annual general meeting of the Company after his appointment and be eligible for re-election at such meeting. Any Director so appointed by the Board shall not be taken into account in determining the Directors or the number of Directors who are to retire by rotation at an annual general meeting.

At each annual general meeting, one third of the Directors for the time being shall retire from office by rotation. However, if the number of Directors is not a multiple of three, then the number nearest to but not less than one third shall be the number of retiring Directors. The Directors to retire in each year shall be those who have been in office longest since their last re-election or appointment but, as between persons who became or were last re-elected Directors on the same day, those to retire shall (unless they otherwise agree among themselves) be determined by lot.

No person, other than a retiring Director, shall, unless recommended by the Board for election, be eligible for election to the office of Director at any general meeting, unless notice in writing of the intention to propose that person for election as a Director and notice in writing by that person of his willingness to be elected has been lodged at the head office or at the registration office of the Company. The period for lodgement of such notices shall commence no earlier than the day after despatch of the notice of the relevant meeting and end no later than seven days before the date of such meeting and the minimum length of the period during which such notices may be lodged must be at least seven days.

A Director is not required to hold any shares in the Company by way of qualification nor is there any specified upper or lower age limit for Directors either for accession to or retirement from the Board.

A Director may be removed by an ordinary resolution of the Company before the expiration of his term of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and the Company may by ordinary resolution appoint another in his place. Any Director so appointed shall be subject to the “retirement by rotation” provisions. The number of Directors shall not be less than two.

The office of a Director shall be vacated if he:

- (aa) resign;
- (bb) dies;
- (cc) is declared to be of unsound mind and the Board resolves that his office be vacated;
- (dd) becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;
- (ee) is prohibited from being or ceases to be a director by operation of law;
- (ff) without special leave, is absent from meetings of the Board for six consecutive months, and the Board resolves that his office is vacated;
- (gg) has been required by the stock exchange of the Relevant Territory (as defined in the Articles) to cease to be a Director; or
- (hh) is removed from office by the requisite majority of the Directors or otherwise pursuant to the Articles.

From time to time the Board may appoint one or more of its body to be managing director, joint managing director or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the Board may determine, and the Board may revoke or terminate any of such appointments. The Board may also delegate any of its powers to committees consisting of such Director(s) or other person(s) as the Board thinks fit, and from time to time it may also revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers so delegated, conform to any regulations that may from time to time be imposed upon it by the Board.

**(ii) *Power to allot and issue shares and warrants***

Subject to the provisions of the Companies Law, the Memorandum and Articles and without prejudice to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached to it such rights, or such restrictions, whether with regard to dividend, voting, return of capital or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the Board may determine). Any share may be issued on terms that, upon the happening of a specified event or upon a given date and either at the option of the Company or the holder of the share, it is liable to be redeemed.



The Board may issue warrants to subscribe for any class of shares or other securities of the Company on such terms as it may from time to time determine.

Where warrants are issued to bearer, no certificate in respect of such warrants shall be issued to replace one that has been lost unless the Board is satisfied beyond reasonable doubt that the original certificate has been destroyed and the Company has received an indemnity in such form as the Board thinks fit with regard to the issue of any such replacement certificate.

Subject to the provisions of the Companies Law, the Articles and, where applicable, the rules of any stock exchange of the Relevant Territory (as defined in the Articles) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the Board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the Board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others whose registered addresses are in any particular territory or territories where, in the absence of a registration statement or other special formalities, this is or may, in the opinion of the Board, be unlawful or impracticable. However, no member affected as a result of the foregoing shall be, or be deemed to be, a separate class of members for any purpose whatsoever.

**(iii) *Power to dispose of the assets of the Company or any of its subsidiaries***

While there are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries, the Board may exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Companies Law to be exercised or done by the Company in general meeting, but if such power or act is regulated by the Company in general meeting, such regulation shall not invalidate any prior act of the Board which would have been valid if such regulation had not been made.

**(iv) *Borrowing powers***

The Board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and uncalled capital of the Company and, subject to the Companies Law, to issue debentures, debenture stock, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

(v) *Remuneration*

The Directors shall be entitled to receive, as ordinary remuneration for their services, such sums as shall from time to time be determined by the Board or the Company in general meeting, as the case may be, such sum (unless otherwise directed by the resolution by which it is determined) to be divided among the Directors in such proportions and in such manner as they may agree or, failing agreement, either equally or, in the case of any Director holding office for only a portion of the period in respect of which the remuneration is payable, pro rata. The Directors shall also be entitled to be repaid all expenses reasonably incurred by them in attending any Board meetings, committee meetings or general meetings or otherwise in connection with the discharge of their duties as Directors. Such remuneration shall be in addition to any other remuneration to which a Director who holds any salaried employment or office in the Company may be entitled by reason of such employment or office.

Any Director who, at the request of the Company, performs services which in the opinion of the Board go beyond the ordinary duties of a Director may be paid such special or extra remuneration as the Board may determine, in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration and such other benefits and allowances as the Board may from time to time decide. Such remuneration shall be in addition to his ordinary remuneration as a Director.

The Board may establish, either on its own or jointly in concurrence or agreement with subsidiaries of the Company or companies with which the Company is associated in business, or may make contributions out of the Company's monies to, any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or former Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and former employees of the Company and their dependents or any class or classes of such persons.

The Board may also pay, enter into agreements to pay or make grants of revocable or irrevocable, whether or not subject to any terms or conditions, pensions or other benefits to employees and former employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or former employees or their dependents are or may become entitled under any such scheme or fund as mentioned above. Such pension or benefit may, if deemed desirable by the Board, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

**(vi) *Compensation or payments for loss of office***

Payments to any present Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually or statutorily entitled) must be approved by the Company in general meeting.

**(vii) *Loans and provision of security for loans to Directors***

The Company shall not directly or indirectly make a loan to a Director or a director of any holding company of the Company or any of their respective close associates, enter into any guarantee or provide any security in connection with a loan made by any person to a Director or a director of any holding company of the Company or any of their respective close associates, or, if any one or more of the Directors hold(s) (jointly or severally or directly or indirectly) a controlling interest in another company, make a loan to that other company or enter into any guarantee or provide any security in connection with a loan made by any person to that other company.

**(viii) *Disclosure of interest in contracts with the Company or any of its subsidiaries***

With the exception of the office of auditor of the Company, a Director may hold any other office or place of profit with the Company in conjunction with his office of Director for such period and upon such terms as the Board may determine, and may be paid such extra remuneration for that other office or place of profit, in whatever form, in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director, officer or member of any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration or other benefits received by him as a director, officer or member of such other company. The Board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company.

No Director or intended Director shall be disqualified by his office from contracting with the Company, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company for any profit realised by any such contract or arrangement by reason only of such Director holding that office or the fiduciary relationship established by it. A Director who is, in any way, materially interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the earliest meeting of the Board at which he may practically do so.

There is no power to freeze or otherwise impair any of the rights attaching to any share by reason that the person or persons who are interested directly or indirectly in that share have failed to disclose their interests to the Company.

A Director shall not vote or be counted in the quorum on any resolution of the Board in respect of any contract or arrangement or proposal in which he or any of his close associate(s) has/have a material interest, and if he shall do so his vote shall not be counted nor shall he be counted in the quorum for that resolution, but this prohibition shall not apply to any of the following matters:

- (aa) the giving of any security or indemnity to the Director or his close associate(s) in respect of money lent or obligations incurred or undertaken by him or any of them at the request of or for the benefit of the Company or any of its subsidiaries;
- (bb) the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his close associate(s) has/have himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (cc) any proposal concerning an offer of shares, debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his close associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (dd) any proposal or arrangement concerning the benefit of employees of the Company or any of its subsidiaries, including the adoption, modification or operation of either: (i) any employees' share scheme or any share incentive or share option scheme under which the Director or his close associate(s) may benefit; or (ii) any of a pension fund or retirement, death or disability benefits scheme which relates to Directors, their close associates and employees of the Company or any of its subsidiaries and does not provide in respect of any Director or his close associate(s) any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; and
- (ee) any contract or arrangement in which the Director or his close associate(s) is/are interested in the same manner as other holders of shares, debentures or other securities of the Company by virtue only of his/their interest in those shares, debentures or other securities.

**(ix) *Proceedings of the Board***

The Board may meet anywhere in the world for the despatch of business and may adjourn and otherwise regulate its meetings as it thinks fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have a second or casting vote.

**(c) Alterations to the constitutional documents and the Company's name**

To the extent that the same is permissible under Cayman Islands law and subject to the Articles, the Memorandum and Articles of the Company may only be altered or amended, and the name of the Company may only be changed, with the sanction of a special resolution of the Company.

**(d) Meetings of member**

**(i) *Special and ordinary resolutions***

A special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or by proxy or, in the case of members which are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given.

Under Companies Law, a copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within 15 days of being passed.

An "ordinary resolution", by contrast, is a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of members which are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given.

A resolution in writing signed by or on behalf of all members shall be treated as an ordinary resolution duly passed at a general meeting of the Company duly convened and held, and where relevant as a special resolution so passed.

**(ii) *Voting rights and right to demand a poll***

Subject to any special rights, restrictions or privileges as to voting for the time being attached to any class or classes of shares at any general meeting: (a) on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every share which is fully paid or credited as fully paid registered in his name in the register of members of the Company but so that no amount paid up or credited as paid up on a share in advance of calls or instalments is treated for this purpose as paid up on the share; and (b) on a show of hands every member who is present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy shall have one vote. Where more than one proxy is appointed by a member which is a Clearing House (as defined in the Articles) or its nominee(s), each such proxy shall have one vote on a show of hands. On a poll, a member entitled to more than one vote need not use all his votes or cast all the votes he does use in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by poll save that the chairman of the meeting may, pursuant to the Listing Rules, allow a resolution to be voted on by a show of hands. Where a show of hands is allowed, before or on the declaration of the result of the show of hands, a poll may be demanded by (in each case by members present in person or by proxy or by a duly authorised corporate representative):

- (A) at least two members;
- (B) any member or members representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or
- (C) a member or members holding shares in the Company conferring a right to vote at the meeting on which an aggregate sum has been paid equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

Should a Clearing House or its nominee(s) be a member of the Company, such person or persons may be authorised as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised in accordance with this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same rights and powers on behalf of the Clearing House or its nominee(s) as if such person were an individual member including the right to vote individually on a show of hands.

Where the Company has knowledge that any member is, under the Listing Rules, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

**(iii) *Annual general meetings***

The Company must hold an annual general meeting each year other than the year of the Company's adoption of the Articles. Such meeting must be held not more than 15 months after the holding of the last preceding annual general meeting, or such longer period as may be authorised by the Stock Exchange at such time and place as may be determined by the Board.

**(iv) *Requisition of general meetings***

Extraordinary general meetings may be convened on the requisition of one or more members holding, at the date of deposit of the requisition, not less than one tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Board or the secretary of the Company for the purpose of requiring an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

**(v) *Notices of meetings and business to be conducted***

An annual general meeting of the Company shall be called by at least 21 days' notice in writing, and any other general meeting of the Company shall be called by at least 14 days' notice in writing. The notice shall be exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and must specify the time, place and agenda of the meeting and particulars of the resolution(s) to be considered at that meeting and, in the case of special business, the general nature of that business.

Except where otherwise expressly stated, any notice or document (including a share certificate) to be given or issued under the Articles shall be in writing, and may be served by the Company on any member personally, by post to such member's registered address or (in the case of a notice) by advertisement in the newspapers. Any member whose registered address is outside Hong Kong may notify the Company in writing of an address in Hong Kong which shall be deemed to be his registered address for this purpose. Subject to the Companies Law and the Listing Rules, a notice or document may also be served or delivered by the Company to any member by electronic means.

Although a meeting of the Company may be called by shorter notice than as specified above, such meeting may be deemed to have been duly called if it is so agreed:

- (i) in the case of an annual general meeting, by all members of the Company entitled to attend and vote thereat; and
- (ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting holding not less than 95% of the total voting rights in the Company.

All business transacted at an extraordinary general meeting shall be deemed special business. All business shall also be deemed special business where it is transacted at an annual general meeting, with the exception of certain routine matters which shall be deemed ordinary business.



**(vi) *Quorum for meetings and separate class meetings***

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, and continues to be present until the conclusion of the meeting.

The quorum for a general meeting shall be two members present in person (or in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

**(vii) *Proxies***

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. On a poll or on a show of hands, votes may be given either personally (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy.

The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing, or if the appointor is a corporation, either under seal or under the hand of a duly authorised officer or attorney. Every instrument of proxy, whether for a specified meeting or otherwise, shall be in such form as the Board may from time to time approve, provided that it shall not preclude the use of the two-way form. Any form issued to a member for appointing a proxy to attend and vote at an extraordinary general meeting or at an annual general meeting at which any business is to be transacted shall be such as to enable the member, according to his intentions, to instruct the proxy to vote in favour of or against (or, in default of instructions, to exercise his discretion in respect of) each resolution dealing with any such business.

**(e) *Accounts and audit***

The Board shall cause proper books of account to be kept of the sums of money received and expended by the Company, and of the assets and liabilities of the Company and of all other matters required by the Companies Law (which include all sales and purchases of goods by the company) necessary to give a true and fair view of the state of the Company's affairs and to show and explain its transactions.



The books of accounts of the Company shall be kept at the head office of the Company or at such other place or places as the Board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any account, book or document of the Company except as conferred by the Companies Law or ordered by a court of competent jurisdiction or authorised by the Board or the Company in general meeting.

The Board shall from time to time cause to be prepared and laid before the Company at its annual general meeting balance sheets and profit and loss accounts (including every document required by law to be annexed thereto), together with a copy of the Directors' report and a copy of the auditors' report, not less than 21 days before the date of the annual general meeting. Copies of these documents shall be sent to every person entitled to receive notices of general meetings of the Company under the provisions of the Articles together with the notice of annual general meeting, not less than 21 days before the date of the meeting.

Subject to the rules of the stock exchange of the Relevant Territory (as defined in the Articles), the Company may send summarized financial statements to members who have, in accordance with the rules of the stock exchange of the Relevant Territory, consented and elected to receive summarized financial statements instead of the full financial statements. The summarized financial statements must be accompanied by any other documents as may be required under the rules of the stock exchange of the Relevant Territory, and must be sent to those members that have consented and elected to receive the summarised financial statements not less than 21 days before the general meeting.

The Company shall appoint auditor(s) to hold office until the conclusion of the next annual general meeting on such terms and with such duties as may be agreed with the Board. The auditors' remuneration shall be fixed by the Company in general meeting or by the Board if authority is so delegated by the members.

The members may, at a general meeting remove the auditor(s) by a special resolution at any time before the expiration of the term of office of the auditor(s) and shall, by an ordinary resolution, at that meeting appoint new auditor(s) in place of the removed auditor(s) for the remainder of the term.

The auditors shall audit the financial statements of the Company in accordance with generally accepted accounting principles of Hong Kong, the International Accounting Standards or such other standards as may be permitted by the Stock Exchange.

**(f) Dividends and other methods of distribution**

The Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the Board.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide:

- (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect of which the dividend is paid, although no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share;
- (ii) all dividends shall be apportioned and paid pro rata in accordance with the amount paid up on the shares during any portion(s) of the period in respect of which the dividend is paid; and
- (iii) the Board may deduct from any dividend or other monies payable to any member all sums of money (if any) presently payable by him to the Company on account of calls, instalments or otherwise.

Where the Board or the Company in general meeting has resolved that a dividend should be paid or declared, the Board may resolve:

- (aa) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the members entitled to such dividend will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or
- (bb) that the members entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the Board may think fit.

Upon the recommendation of the Board, the Company may by ordinary resolution in respect of any one particular dividend of the Company determine that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to members to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, bonus or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post. Every such cheque or warrant shall be made payable to the order of the person to whom it is sent and shall be sent at the holder's or joint holders' risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other monies payable or property distributable in respect of the shares held by such joint holders.

Whenever the Board or the Company in general meeting has resolved that a dividend be paid or declared, the Board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

The Board may, if it thinks fit, receive from any member willing to advance the same, and either in money or money's worth, all or any part of the money uncalled and unpaid or instalments payable upon any shares held by him, and in respect of all or any of the monies so advanced may pay interest at such rate (if any) not exceeding 20% per annum, as the Board may decide, but a payment in advance of a call shall not entitle the member to receive any dividend or to exercise any other rights or privileges as a member in respect of the share or the due portion of the shares upon which payment has been advanced by such member before it is called up.

All dividends, bonuses or other distributions unclaimed for one year after having been declared may be invested or otherwise used by the Board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends, bonuses or other distributions unclaimed for six years after having been declared may be forfeited by the Board and, upon such forfeiture, shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

The Company may exercise the power to cease sending cheques for dividend entitlements or dividend warrants by post if such cheques or warrants remain uncashed on two consecutive occasions or after the first occasion on which such a cheque or warrant is returned undelivered.

**(g) Inspection of corporate records**

For so long as any part of the share capital of the Company is listed on the Stock Exchange, any member may inspect any register of members of the Company maintained in Hong Kong (except when the register of members is closed) without charge and require the provision to him of copies or extracts of such register in all respects as if the Company were incorporated under and were subject to the Hong Kong Companies Ordinance.

**(h) Rights of minorities in relation to fraud or oppression**

There are no provisions in the Articles concerning the rights of minority members in relation to fraud or oppression. However, certain remedies may be available to members of the Company under Cayman Islands law, as summarized in paragraph 3(f) of this Appendix.

**(i) Procedures on liquidation**

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares:

- (i) if the Company is wound up, the surplus assets remaining after payment to all creditors shall be divided among the members in proportion to the capital paid up on the shares held by them respectively; and
- (ii) if the Company is wound up and the surplus assets available for distribution among the members are insufficient to repay the whole of the paid-up capital, such assets shall be distributed, subject to the rights of any shares which may be issued on special terms and conditions, so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up on the shares held by them, respectively.

If the Company is wound up (whether the liquidation is voluntary or compelled by the court), the liquidator may, with the sanction of a special resolution and any other sanction required by the Companies Law, divide among the members in specie or kind the whole or any part of the assets of the Company, whether the assets consist of property of one kind or different kinds, and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be so divided and may determine how such division shall be carried out as between the members or different classes of members and the members within each class. The liquidator may, with the like sanction, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator thinks fit, but so that no member shall be compelled to accept any shares or other property upon which there is a liability.

**(j) Subscription rights reserve**

Provided that it is not prohibited by and is otherwise in compliance with the Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of the shares to be issued on the exercise of such warrants, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of such shares.

**3. CAYMAN ISLANDS COMPANY LAW**

The Company was incorporated in the Cayman Islands as an exempted company on 20 April 2018 subject to the Companies Law. Certain provisions of Cayman Islands company law are set out below but this section does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of the Companies Law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

**(a) Company operations**

An exempted company such as the Company must conduct its operations mainly outside the Cayman Islands. An exempted company is also required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

**(b) Share capital**

Under Companies Law, a Cayman Islands company may issue ordinary, preference or redeemable shares or any combination thereof. Where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or value of the premiums on those shares shall be transferred to an account, to be called the “share premium account”. At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangements in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association, in such manner as the company may from time to time determine including, but without limitation, the following:

- (i) paying distributions or dividends to members;
- (ii) paying up unissued shares of the company to be issued to members as fully paid bonus shares;
- (iii) any manner provided in section 37 of the Companies Law;
- (iv) writing-off the preliminary expenses of the company; and
- (v) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

Notwithstanding the foregoing, no distribution or dividend may be paid to members out of the share premium account unless, immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course of business.

Subject to confirmation by the court, a company limited by shares or a company limited by guarantee and having a share capital may, if authorised to do so by its articles of association, by special resolution reduce its share capital in any way.

**(c) Financial assistance to purchase shares of a company or its holding company**

There are no statutory prohibitions in the Cayman Islands on the granting of financial assistance by a company to another person for the purchase of, or subscription for, its own, its holding company's or a subsidiary's shares. Therefore, a company may provide financial assistance provided the directors of the company, when proposing to grant such financial assistance, discharge their duties of care and act in good faith, for a proper purpose and in the interests of the company. Such assistance should be on an arm's-length basis.

**(d) Purchase of shares and warrants by a company and its subsidiaries**

A company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a member and, for the avoidance of doubt, it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company's articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares; an ordinary resolution of the company approving the manner and terms of the purchase will be required if the articles of association do not authorise the manner and terms of such purchase. A company may not redeem or purchase its shares unless they are fully paid. Furthermore, a company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the company other than shares held as treasury shares. In addition, a payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless, immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

Shares that have been purchased or redeemed by a company or surrendered to the company shall not be treated as cancelled but shall be classified as treasury shares if held in compliance with the requirements of Section 37A(1) of the Companies Law. Any such shares shall continue to be classified as treasury shares until such shares are either cancelled or transferred pursuant to the Companies Law.

A Cayman Islands company may be able to purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. Thus there is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases. The directors of a company may under the general power contained in its memorandum of association be able to buy, sell and deal in personal property of all kinds.

A subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

**(e) Dividends and distributions**

Subject to a solvency test, as prescribed in the Companies Law, and the provisions, if any, of the company's memorandum and articles of association, a company may pay dividends and distributions out of its share premium account. In addition, based upon English case law which is likely to be persuasive in the Cayman Islands, dividends may be paid out of profits.

For so long as a company holds treasury shares, no dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made, in respect of a treasury share.

**(f) Protection of minorities and shareholders' suits**

It can be expected that the Cayman Islands courts will ordinarily follow English case law precedents (particularly the rule in the case of *Foss v. Harbottle* and the exceptions to that rule) which permit a minority member to commence a representative action against or derivative actions in the name of the company to challenge acts which are ultra vires, illegal, fraudulent (and performed by those in control of the Company) against the minority, or represent an irregularity in the passing of a resolution which requires a qualified (or special) majority which has not been obtained.

Where a company (not being a bank) is one which has a share capital divided into shares, the court may, on the application of members holding not less than one-fifth of the shares of the company in issue, appoint an inspector to examine the affairs of the company and, at the direction of the court, to report on such affairs. In addition, any member of a company may petition the court, which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

In general, claims against a company by its members must be based on the general laws of contract or tort applicable in the Cayman Islands or be based on potential violation of their individual rights as members as established by a company's memorandum and articles of association.

**(g) Disposal of assets**

There are no specific restrictions on the power of directors to dispose of assets of a company, however, the directors are expected to exercise certain duties of care, diligence and skill to the standard that a reasonably prudent person would exercise in comparable circumstances, in addition to fiduciary duties to act in good faith, for proper purpose and in the best interests of the company under English common law (which the Cayman Islands courts will ordinarily follow).

**(h) Accounting and auditing requirements**

A company must cause proper records of accounts to be kept with respect to: (i) all sums of money received and expended by it; (ii) all sales and purchases of goods by it and (iii) its assets and liabilities.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

If a company keeps its books of account at any place other than at its registered office or any other place within the Cayman Islands, it shall, upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law (2013 Revision) of the Cayman Islands, make available, in electronic form or any other medium, at its registered office copies of its books of account, or any part or parts thereof, as are specified in such order or notice.

**(i) Exchange control**

There are no exchange control regulations or currency restrictions in effect in the Cayman Islands.

**(j) Taxation**

Pursuant to section 6 of the Tax Concessions Law (2018 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Financial Secretary that:

- (i) no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciation shall apply to the Company or its operations; and
- (ii) no tax be levied on profits, income gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable by the Company:
  - (aa) on or in respect of the shares, debentures or other obligations of the Company;  
or
  - (bb) by way of withholding in whole or in part of any relevant payment as defined in section 6(3) of the Tax Concessions Law (2018 Revision).

The undertaking for the Company is for a period of 20 years from 11 May 2018.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save for certain stamp duties which may be applicable, from time to time, on certain instruments.

**(k) Stamp duty on transfers**

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies save for those which hold interests in land in the Cayman Islands.

**(l) Loans to directors**

There is no express provision prohibiting the making of loans by a company to any of its directors. However, the company's articles of association may provide for the prohibition of such loans under specific circumstances.

**(m) Inspection of corporate records**

The members of a company have no general right to inspect or obtain copies of the register of members or corporate records of the company. They will, however, have such rights as may be set out in the company's articles of association.



**(n) Register of members**

A Cayman Islands exempted company may maintain its principal register of members and any branch registers in any country or territory, whether within or outside the Cayman Islands, as the company may determine from time to time. There is no requirement for an exempted company to make any returns of members to the Registrar of Companies in the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection. However, an exempted company shall make available at its registered office, in electronic form or any other medium, such register of members, including any branch register of member, as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law (2013 Revision) of the Cayman Islands.

**(o) Register of Directors and officers**

Pursuant to the Companies Law, the Company is required to maintain at its registered office a register of directors, alternate directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within 60 days of any change in such directors or officers, including a change of the name of such directors or officers.

**(p) Winding up**

A Cayman Islands company may be wound up by: (i) an order of the court; (ii) voluntarily by its members; or (iii) under the supervision of the court.

The court has authority to order winding up in a number of specified circumstances including where, in the opinion of the court, it is just and equitable that such company be so wound up.

A voluntary winding up of a company (other than a limited duration company, for which specific rules apply) occurs where the company resolves by special resolution that it be wound up voluntarily or where the company in general meeting resolves that it be wound up voluntarily because it is unable to pay its debt as they fall due. In the case of a voluntary winding up, the company is obliged to cease to carry on its business from the commencement of its winding up except so far as it may be beneficial for its winding up. Upon appointment of a voluntary liquidator, all the powers of the directors cease, except so far as the company in general meeting or the liquidator sanctions their continuance.

In the case of a members' voluntary winding up of a company, one or more liquidators are appointed for the purpose of winding up the affairs of the company and distributing its assets.

As soon as the affairs of a company are fully wound up, the liquidator must make a report and an account of the winding up, showing how the winding up has been conducted and the property of the company disposed of, and call a general meeting of the company for the purposes of laying before it the account and giving an explanation of that account.

When a resolution has been passed by a company to wind up voluntarily, the liquidator or any contributory or creditor may apply to the court for an order for the continuation of the winding up under the supervision of the court, on the grounds that: (i) the company is or is likely to become insolvent; or (ii) the supervision of the court will facilitate a more effective, economic or expeditious liquidation of the company in the interests of the contributories and creditors. A supervision order takes effect for all purposes as if it was an order that the company be wound up by the court except that a commenced voluntary winding up and the prior actions of the voluntary liquidator shall be valid and binding upon the company and its official liquidator.

For the purpose of conducting the proceedings in winding up a company and assisting the court, one or more persons may be appointed to be called an official liquidator(s). The court may appoint to such office such person or persons, either provisionally or otherwise, as it thinks fit, and if more than one person is appointed to such office, the court shall declare whether any act required or authorized to be done by the official liquidator is to be done by all or any one or more of such persons. The court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the court.

**(q) Reconstructions**

Reconstructions and amalgamations may be approved by a majority in number representing 75% in value of the members or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the courts. Whilst a dissenting member has the right to express to the court his view that the transaction for which approval is being sought would not provide the members with a fair value for their shares, the courts are unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management, and if the transaction were approved and consummated the dissenting member would have no rights comparable to the appraisal rights (i.e. the right to receive payment in cash for the judicially determined value of their shares) ordinarily available, for example, to dissenting members of a United States corporation.

**(r) Take-overs**

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90% of the shares which are the subject of the offer accept, the offeror may, at any time within two months after the expiration of that four-month period, by notice require the dissenting members to transfer their shares on the terms of the offer. A dissenting member may apply to the Cayman Islands courts within one month of the notice objecting to the transfer. The burden is on the dissenting member to

show that the court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority members.

**(s) Indemnification**

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, save to the extent any such provision may be held by the court to be contrary to public policy, for example, where a provision purports to provide indemnification against the consequences of committing a crime.

**4. GENERAL**

Appleby, the Company's legal adviser on Cayman Islands law, has sent to the Company a letter of advice which summarises certain aspects of the Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the paragraph headed "2. Documents Available for Inspection" in Appendix VI. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

**A. FURTHER INFORMATION ABOUT OUR COMPANY****1. Incorporation**

Our Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 20 April 2018. Our Company has established a principal place of business in Hong Kong at Workshops 1605-1606, 16/F., Block B, New Trade Plaza, 6 On Ping Street, Sha Tin, New Territories, Hong Kong and was registered as a non-Hong Kong company in Hong Kong under Part 16 of the Companies Ordinance on 24 July 2018. Mr. Joe Kwok who resides at Flat E, 10/F., Tower 2, Deerhill Tower, Deerhill Bay, No. 4699 Tai Po Road, Tai Po, New Territories, Hong Kong and Mr. Ken Kwok who resides at 6 Eighteenth Street, Hong Lok Yuen, Tai Po, New Territories, Hong Kong have been appointed as authorised representatives of our Company for the acceptance of service of process and notices on behalf of our Company in Hong Kong.

As our Company is incorporated in the Cayman Islands, it is subject to the Companies Law and its constitution documents comprise the Memorandum of Association and the Articles of Association. A summary of various parts of the constitution documents and relevant aspects of the Companies Law is set out in Appendix IV to this prospectus.

**2. Changes in share capital of our Company**

- (a) Our Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 20 April 2018 with an authorised share capital of HK\$390,000 divided into 39,000,000 Shares of HK\$0.01 each, of which one Share was allotted and issued fully paid to the initial subscriber at par. On the same date, the one Share held by the initial subscriber was transferred to Conquer for cash at par.
- (b) On 22 June 2019, the authorised share capital of our Company was increased from HK\$390,000 to HK\$20,000,000 by the creation of an additional 1,961,000,000 new Shares pursuant to a resolution in writing passed by our sole Shareholder referred to in the sub-paragraph headed “4. Written resolutions of our sole Shareholder” below.

Immediately following completion of the Share Offer and the Capitalisation Issue (without taking into account of any Shares which may be allotted and issued pursuant to the exercise of any options which may be granted under the Share Option Scheme), the authorised share capital of our Company will be HK\$20,000,000 divided into 2,000,000,000 Shares and the issued share capital of our Company will be HK\$5,000,000 divided into 500,000,000 Shares, all fully paid or credited as fully paid, with 1,500,000,000 Shares remaining unissued.

Other than pursuant to the general mandate to issue Shares referred to in the sub-paragraph headed “4. Written resolutions of our sole Shareholder” below and the exercise of any options which may be granted under the Share Option Scheme, our Directors do not have any present intention to issue any of the authorised but unissued share capital of our Company and, without the prior approval of our sole Shareholder at general meeting, no issue of Shares will be made which would effectively alter the control of our Company.

Save as disclosed in this prospectus, there has been no alteration in the share capital of our Company since the date of its incorporation.

### **3. Changes in share capital of the subsidiaries of our Company**

Our Company's subsidiaries are referred to in the Accountants' Report, the text of which is set out in Appendix I to this prospectus.

Save as disclosed in the section headed "History, Reorganisation and Group Structure" of this prospectus, there has been no alteration in the share capital of any of the subsidiaries of our Company within the two years immediately preceding the date of this prospectus.

### **4. Written resolutions of our sole Shareholder**

Pursuant to the written resolutions of our sole Shareholder passed on 22 June 2019, among other things:

- (a) our Company approved and adopted the Articles, the terms of which are summarised in Appendix IV to this prospectus;
- (b) the authorised share capital of our Company was increased from HK\$390,000 to HK\$20,000,000 by the creation of additional 1,961,000,000 Shares of HK\$0.01 each;
- (c) conditional on (i) the Listing Committee granting the approval of the listing of, and permission to deal in, the Shares in issue and Shares to be issued as mentioned in this prospectus including any Shares which may be allotted and issued pursuant to the exercise of any options which may be granted under the Share Option Scheme; and (ii) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional and not being terminated in accordance with the terms of the Underwriting Agreements or otherwise (collectively the "**Conditions**"):
  - (i) the Share Offer was approved and our Directors were authorised to allot and issue the Offer Shares pursuant to the Share Offer;
  - (ii) the Share Option Scheme was approved and adopted and our Directors were authorised subject to the terms and conditions of the Share Option Scheme, to grant options to subscribe for Shares thereunder and to allot, issue and deal with the Shares thereunder and to take all such steps as may be necessary, desirable or expedient to carry into effect the Share Option Scheme; and

- (iii) conditional on the share premium account of our Company being credited as a result of the Share Offer, our Directors were authorised to capitalise HK\$3,749,998.99 standing to the credit of our Company's share premium account towards paying up in full at par 374,999,899 Shares for allotment and issue to holders of Shares whose names appeared on the register of members of our Company at the close of business on 22 June 2019 (or as they may direct) in proportion as nearly as may be without involving fractions to their then existing shareholdings in our Company and the Shares to be allotted and issued pursuant to the resolution shall rank *pari passu* in all respects with the existing issued Shares (other than the Capitalisation Issue) and our Directors or any committee of our Board were authorised to give effect to the Capitalisation Issue;
- (d) conditional upon the fulfilment of the Conditions:
  - (i) a general unconditional mandate was given to our Directors to allot, issue and deal with, otherwise than by way of rights issue, scrip dividend schemes or similar arrangement providing for the allotment and issue of the Shares in lieu of the whole or part of a dividend on Shares in accordance with the Articles, or the exercise of any subscription or conversion rights attaching to any warrants or any securities which are convertible into Shares or an issue of Shares pursuant to the exercise of options which may be granted under the Share Option Scheme, Shares with an aggregate nominal amount not exceeding 20% of the aggregate nominal amount of the share capital of our Company in issue immediately upon completion of the Share Offer and the Capitalisation Issue (without taking into account of any Shares which may be allotted and issued upon the exercise of any options which may be granted under the Share Option Scheme). Such mandate will expire at the conclusion of the next annual general meeting of our Company; or the expiration of the period within which the next annual general meeting of our Company is required by the Articles or any applicable law of the Cayman Islands to be held; or when revoked, varied or renewed by an ordinary resolution of our Shareholders in a general meeting, whichever occurs first;
  - (ii) a general unconditional mandate was given to our Directors authorising the repurchase by our Company on the Stock Exchange, or on any other stock exchange on which the securities of our Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, in accordance with all applicable laws and the requirements of the Listing Rules (or of such other stock exchange), of Shares not exceeding 10% of the aggregate nominal amount of the share capital of our Company in issue and to be issued immediately upon completion of the Share Offer and the Capitalisation Issue (without taking into account of any Shares which may be allotted and issued upon the exercise of any options which may be granted under the Share Option Scheme). Such mandate will expire at the conclusion of the next annual general

meeting of our Company; or the expiration of the period within which the next annual general meeting of our Company is required by the Articles or any applicable law of the Cayman Islands to be held; or when revoked, varied or renewed by an ordinary resolution of the Shareholders in a general meeting, whichever occurs first; and

- (iii) the general unconditional mandate as mentioned in sub-paragraph (d)(i) above was extended by the addition to the aggregate nominal amount of the share capital of our Company which may be allotted or agreed to be allotted by our Directors pursuant to such general mandate of an amount representing the aggregate nominal amount of the share capital of our Company repurchased by our Company pursuant to the mandate to repurchase Shares referred to in sub-paragraph (d)(ii) above, provided that such extended amount shall not exceed 10% of the aggregate nominal value of the share capital of our Company in issue immediately following completion of the Capitalisation Issue and the Share Offer but taking no account of any Shares which may be issued upon the exercise of any options which may be granted under the Share Option Scheme.

## **5. Corporate reorganisation**

Our Group has undergone the Reorganisation in preparation for Listing which involved the following steps:

- (1) On 10 November 2017, Conquer was incorporated in the BVI with limited liability. Conquer was authorised to issue a maximum of 50,000 shares of US\$1 each, of which 5,000 shares of Conquer were allotted and issued as fully paid to each of Mr. Joe Kwok and Mr. Ken Kwok at par. Conquer was set up to be a corporate shareholder of our Company.
- (2) On 21 March 2018, the registered capital of Shenzhen Hua Qing was increased by HK\$50,000,000 from HK\$8,560,000 to HK\$58,560,000. The additional registered capital was contributed in cash by Mrs. Kwok as to HK\$6,000,000 on 27 April 2018 and HK\$6,000,000 on 21 May 2018, and by Kelfred as to HK\$3,499,750 on 6 November 2018 and HK\$2,500,250 on 19 December 2018 and the balance in the amount of HK\$32,000,000 will be contributed in cash by Kelfred by 31 December 2020, which is the latest date of contribution as required by the PRC authority, unless extension is granted. After completing the recordation and registration as requested by the governmental and regulatory bodies, the legal procedure for such increase of registered capital was completed on 4 April 2018. The shareholding of Shenzhen Hua Qing remained unchanged after the aforesaid increase.
- (3) On 27 March 2018, Mr. Joe Kwok and Mr. Ken Kwok (as vendors) entered into a sale and purchase agreement with Mrs. Kwok (as purchaser), pursuant to which each of Mr. Joe Kwok and Mr. Ken Kwok transferred 100 shares of Conquer to Mrs. Kwok at the respective consideration of US\$1. Following completion of the above transfers of shares, Conquer was owned as to 2%, 49% and 49% by Mrs. Kwok, Mr. Joe Kwok and Mr. Ken Kwok respectively.



- (4) On 10 April 2018, Fame Investment was incorporated in the BVI with limited liability. Fame Investment was authorised to issue a maximum of 50,000 shares of US\$1 each, of which two, 49 and 49 shares were allotted and issued fully paid to Mrs. Kwok, Mr. Joe Kwok and Mr. Ken Kwok at par respectively on the same date.
- (5) On 20 April 2018, our Company was incorporated in the Cayman Islands with limited liability with an authorised share capital of HK\$390,000 divided into 39,000,000 Shares of HK\$0.01 each, of which one Share was allotted and issued fully paid to an initial subscriber, which is an Independent Third Party, at par. On the same date, such subscriber's Share was transferred to Conquer for cash at par and the said share transfer was legally completed on the same date.
- (6) On 15 May 2018, Mr. Joe Kwok and Mr. Ken Kwok (as vendors) entered into a sale and purchase agreement with Fame Investment (as purchaser), pursuant to which each of Mr. Joe Kwok and Mr. Ken Kwok transferred 10,000 shares of Optical Farm to Fame Investment at the consideration of HK\$1. The said transfers were properly and legally completed and the consideration was settled on 17 May 2018. Following completion of the said transfers of shares, Optical Farm became a wholly-owned subsidiary of Fame Investment.
- (7) On 15 May 2018, Mr. Joe Kwok (as vendor) entered into a sale and purchase agreement with Fame Investment (as purchaser), pursuant to which Mr. Joe Kwok transferred 120,000 shares, representing 50% of the issued share capital of Central Designs, of Central Designs to Fame Investment at the consideration of HK\$1. The said transfer was properly and legally completed and the consideration was settled on 20 June 2018. Following completion of the above transfer of shares, Central Designs was owned as to 50% by each of Fame Investment and Mr. Russell.
- (8) On 17 May 2018, Mrs. Kwok, Mr. Joe Kwok and Mr. Ken Kwok (as vendors) entered into a sale and purchase agreement with Fame Investment (as purchaser), pursuant to which Mrs. Kwok, Mr. Joe Kwok and Mr. Ken Kwok respectively transferred 60,000 shares, 1,470,000 shares and 1,470,000 shares of Kelfred to Fame Investment at the respective consideration of HK\$2, HK\$49 and HK\$49. The said transfers were properly and legally completed and the consideration was settled on 28 May 2018. Following completion of the above transfers of shares, Kelfred became a wholly-owned subsidiary of Fame Investment.
- (9) Kelfred (as purchaser) and Mrs. Kwok entered into an equity transfer agreement dated 26 June 2018 and a supplemental equity transfer agreement dated 25 July 2018 whereby Kelfred acquired from Mrs. Kwok her entire equity interest in Shenzhen Hua Qing at the consideration of HK\$22,095,000, which was equivalent to the net asset value of Shenzhen Hua Qing as at 26 June 2018, and was satisfied by way of the issue and allotment of 100 new shares of Kelfred to Fame Investment, credited as fully paid in the capital of Kelfred. After obtaining the relevant approval from the respective governmental and regulatory bodies, the legal procedure for the said transfer was completed on 10 July 2018. As a result, Shenzhen Hua Qing became a wholly-owned subsidiary of Kelfred.



- (10) On 3 July 2018, Kelfred (as purchaser) entered into an equity transfer agreement with Mr. Joe Kwok (as vendor) pursuant to which Kelfred acquired from Mr. Joe Kwok 50% equity interest in Jiangxi Huaqing at nil consideration. After obtaining the relevant approval from the respective governmental and regulatory bodies, the legal procedure for the said transfers was completed on 19 July 2018. As a result, Jiangxi Huaqing became a wholly-owned subsidiary of Kelfred.
- (11) On 3 July 2018, Kelfred (as purchaser) entered into an equity transfer agreement with Mr. Ken Kwok (as vendor), pursuant to which Kelfred acquired from Mr. Ken Kwok 50% equity interest in Jiangxi Huaqing at nil consideration. The legal procedure for the said transfer was completed on 19 July 2018.
- (12) On 3 July 2018, Kelfred (as purchaser) entered into an equity transfer agreement with Mr. Joe Kwok (as vendor) pursuant to which Kelfred acquired from Mr. Joe Kwok 50% equity interest in Ying Tan at nil consideration. After obtaining the relevant approval from the respective governmental and regulatory bodies, the legal procedure for the said transfers was completed on 19 July 2018. As a result, Ying Tan became a wholly-owned subsidiary of Kelfred.
- (13) On 3 July 2018, Kelfred (as purchaser) entered into an equity transfer agreement with Mr. Ken Kwok (as vendor), pursuant to which Kelfred acquired from Mr. Ken Kwok 50% equity interest in Ying Tan at nil consideration. The legal procedure for the said transfer was completed on 19 July 2018.
- (14) On 20 June 2019, our Company (as purchaser) entered into a sale and purchase agreement with Mrs. Kwok, Mr. Joe Kwok and Mr. Ken Kwok (as vendors), pursuant to which our Company acquired from Mrs. Kwok, Mr. Joe Kwok and Mr. Ken Kwok two, 49 and 49 shares of Fame Investment respectively in consideration of our Company (at the direction and request of Mrs. Kwok, Mr. Joe Kwok and Mr. Ken Kwok) allotting and issuing 100 new shares of our Company to Conquer, all credited as fully paid in the capital of our Company. The said transfers were legally completed on 20 June 2019. As a result, Fame Investment became a wholly-owned subsidiary of our Company.

## 6. Repurchase by our Company of our own securities

This paragraph contains information required by the Stock Exchange to be included in this prospectus concerning the repurchase by our Company of our own securities.

### (a) *Provisions of the Listing Rules*

The Listing Rules permit companies with a primary listing on the Stock Exchange to purchase their shares on the Stock Exchange subject to certain restrictions.

#### (i) *Shareholders' approval*

The Listing Rules provide that all proposed repurchases of shares (which must be fully paid in the case of shares) by a company with a primary listing on the Stock Exchange must be approved in advance by an ordinary resolution, either by way of general mandate or by specific approval of a specific transaction.

*Note:* Pursuant to the written resolutions of our sole Shareholder passed on 22 June 2019, the Repurchase Mandate was given to our Directors authorising our Directors to exercise all powers of our Company to purchase the Shares as described above in the paragraph headed "Written resolutions of our sole Shareholder" in this Appendix to this prospectus.

(ii) *Source of funds*

Repurchases must be funded out of funds legally available for the purpose in accordance with the Articles and the laws of the Cayman Islands. Our Company may not repurchase our own shares on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange.

Any repurchases by our Company may be made out of profits or out of the proceeds of a fresh issue of Shares made for the purpose of the repurchase or, if authorised by the Articles and subject to the Companies Law, out of capital and, in the case of any premium payable on the repurchase, out of profits of our Company or out of our Company's share premium account before or at the time the Shares are repurchased or, if authorised by the Articles and subject to the Companies Law, out of capital.

(iii) *Connected parties*

The Listing Rules prohibit our Company from knowingly repurchasing the Shares on the Stock Exchange from a "core connected person", which includes a Director, chief executive or substantial Shareholder of our Company or any of the subsidiaries or a close associate of any of them and a core connected person shall not knowingly sell Shares to our Company.

(b) *Reasons for repurchases*

Our Directors believe that it is in the best interests of our Company and our Shareholders for our Directors to have a general authority from our Shareholders to enable our Company to repurchase Shares in the market. Such repurchases may, depending on the market conditions and funding arrangements at the time, lead to an enhancement of our Company's net asset value and/or earnings per Share and will only be made when our Directors believe that such repurchases will benefit our Company and Shareholders.

(c) *Exercise of the Repurchase Mandate*

Exercise in full of the Repurchase Mandate, on the basis of 500,000,000 Shares in issue after completion of the Capitalisation Issue and the Share Offer (taking no account of any Shares which may be allotted and issued pursuant to the exercise of any options which may be granted under the Share Option Scheme), could accordingly result in up to 50,000,000 Shares being repurchased by our Company during the period in which the Repurchase Mandate remains in force.

(d) *Funding of repurchase*

In repurchasing Shares, our Company may only apply funds legally available for such purpose in accordance with the Articles, the Listing Rules and the applicable laws of the Cayman Islands.

Our Directors do not propose to exercise the Repurchase Mandate to such extent as would, in the circumstances, have a material adverse effect on the working capital requirements of our Company or the gearing levels which in the opinion of our Directors are from time to time appropriate for our Company.

**(e) General**

None of our Directors or, to the best of their knowledge having made all reasonable enquiries, any of their close associates (as defined in the Listing Rules), has any present intention if the Repurchase Mandate is exercised to sell any Shares to our Company.

Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules and the applicable laws of the Cayman Islands.

If as a result of a repurchase of Shares pursuant to the Repurchase Mandate, a Shareholder's proportionate interest in the voting rights of our Company increases, such increase will be treated as an acquisition for the purposes of the Takeovers Code. Accordingly, a Shareholder or a group of Shareholders acting in concert, depending on the level of increase of the Shareholders' interest, could obtain or consolidate control of our Company and may become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code as a result of any such increase. Our Directors are not aware of any consequence that would arise under the Takeovers Code as a result of a repurchase pursuant to the Repurchase Mandate.

Our Directors will not exercise the Repurchase Mandate if the repurchase would result in the number of Shares which are in the hands of the public falling below 25% of the total number of Shares in issue (or such other percentage as may be prescribed as the minimum public shareholding under the Listing Rules).

No core connected person (as defined in the Listing Rules) of our Company has notified us that he has a present intention to sell Shares to us, or has undertaken not to do so, if the Repurchase Mandate is exercised.

**B. FURTHER INFORMATION ABOUT THE BUSINESS OF OUR GROUP**

**1. Summary of material contracts**

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by the members of our Group within the two years immediately preceding the date of this prospectus and are or may be material in relation to the business of our Company taken as a whole:

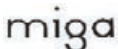
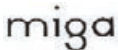

- (a) the sale and purchase agreement relating to the entire issued share capital of Optical Farm dated 15 May 2018 entered into between Mr. Joe Kwok and Mr. Ken Kwok (as vendors) and Fame Investment (as purchaser) pursuant to which each of Mr. Joe Kwok and Mr. Ken Kwok transferred his 10,000 shares of Optical Farm to Fame Investment at the consideration of HK\$1;

- (b) the sale and purchase agreement relating to 50% of the entire issued share capital of Central Designs dated 15 May 2018 entered into between Mr. Joe Kwok (as vendor) and Fame Investment (as purchaser) pursuant to which Mr. Joe Kwok transferred 120,000 shares of Central Designs to Fame Investment at the consideration of HK\$1;
- (c) the shareholders agreement relating to Central Designs dated 15 May 2018 entered into between Fame Investment, Mr. Russell and Central Designs pursuant to which the parties agreed to regulate their rights and obligations in relation to, and the affairs of, Central Designs in accordance with the terms and conditions of the shareholders agreement;
- (d) the sale and purchase agreement relating to the entire issued share capital of Kelfred dated 17 May 2018 entered into between Mrs. Kwok, Mr. Joe Kwok and Mr. Ken Kwok (as vendors) and Fame Investment (as purchaser) pursuant to which Mrs. Kwok, Mr. Joe Kwok and Mr. Ken Kwok respectively transferred 60,000 shares, 1,470,000 shares and 1,470,000 shares of Kelfred to Fame Investment at the consideration of HK\$2, HK\$49 and HK\$49;
- (e) the equity transfer agreement dated 26 June 2018 entered into between Mrs. Kwok and Kelfred pursuant to which Mrs. Kwok transferred her entire equity interest in Shenzhen Hua Qing to Kelfred at the consideration of HK\$22,095,000;
- (f) the supplemental equity transfer agreement dated 25 July 2018 entered into between Mrs. Kwok and Kelfred pursuant to which the parties agreed inter alia that the consideration for the acquisition of the entire equity interest in Shenzhen Hua Qing of HK\$22,095,000 shall be satisfied by way of allotment and issue of 100 new shares of Kelfred by Kelfred credited as fully paid to Fame Investment;
- (g) the equity transfer agreement dated 3 July 2018 entered into between Mr. Joe Kwok and Kelfred pursuant to which Mr. Joe Kwok transferred 50% equity interest in Jiangxi Huaqing to Kelfred at nil consideration;
- (h) the equity transfer agreement dated 3 July 2018 entered into between Mr. Ken Kwok and Kelfred pursuant to which Mr. Ken Kwok transferred 50% equity interest in Jiangxi Huaqing to Kelfred at nil consideration;
- (i) the equity transfer agreement dated 3 July 2018 entered into between Mr. Joe Kwok and Kelfred pursuant to which Mr. Joe Kwok transferred 50% equity interest in Ying Tan to Kelfred at nil consideration;
- (j) the equity transfer agreement dated 3 July 2018 entered into between Mr. Ken Kwok and Kelfred pursuant to which Mr. Ken Kwok transferred 50% equity interest in Ying Tan to Kelfred at nil consideration;
- (k) the sale and purchase agreement relating to the entire issued share capital of Fame Investment dated 20 June 2019 entered into between Mrs. Kwok, Mr. Joe Kwok and Mr. Ken Kwok (as vendors) and our Company (as purchaser) pursuant to which Mrs. Kwok, Mr. Joe Kwok and Mr. Ken Kwok respectively transferred two shares, 49 shares and 49 shares of Fame Investment to our Company in consideration of our Company in aggregate allotting and issuing 100 new Shares of our Company to Conquer, all credited as fully paid in the capital of our Company;
- (l) the Deed of Non-competition;
- (m) the Deed of Indemnity; and
- (n) the Public Offer Underwriting Agreement.

## C. INTELLECTUAL PROPERTY RIGHTS OF OUR GROUP

## 1. Trademark

- (a) As at the Latest Practicable Date, our Group was the registered owner of the following trademarks which we believe are material to our business:

No.	Trademark	Name of registered owner	Class(es) (Note)	Registration number	Expiry date	Place of registration
1.		Optical Farm	9	16035143	27 February 2026	China
2.		Optical Farm	9, 35	301912761	10 May 2021	Hong Kong
3.		Kelfred	9, 35, 42	304363506	10 December 2027	Hong Kong
4.	MIGA	Optical Farm	9	0001658846	3 March 2025	Italy

As at the Latest Practicable Date, our Group is registering the following trademark which we believe is immaterial to our business:

Trademark	Name of registered owner	Class (Note)	Application number	Application date	Place of Application
MIGA	Optical Farm	9	017873722	13 March 2018	European Union

*Note:*

Class 9 – optical apparatus and instruments; eyewear; spectacles; lenses; spectacle frames; eyeglass frames; contact lenses; optical lenses; sunglasses; goggles; eyeglasses; eyeglass chains; eyeglass cords; magnifying glasses; binoculars; field glasses; telescopes; ophthalmic lenses; pince-nez; lens mounts and cases; cases and containers for the aforesaid goods; and parts and fittings for all the aforesaid goods; all included in Class 9.

Class 35 – Export services; export of eyeglasses and optical frames; wholesaling and retailing services of optical apparatus and instruments, eyewear, spectacles, sun glasses, reading glasses, spectacle frames, spectacle bags and cases, optical lenses, contact lenses, contact lens care solutions and tablets, contact lens containers, eyeglass chains and cords; advisory and consultancy services relating thereto; all included in Class 35.

Class 42 – Design and development of new products; consumer product design; providing information in the field of product design; consultancy services relating to the design and development of new products; design and development of eyeglasses and optical frames; providing information in the field of design of eyeglasses and optical frames; consultancy services relating to the design and development of eyeglasses and optical frames; all included in Class 42.

## 2. Domain name

As at the Latest Practicable Date, our Group had registered the following domain names which we believe are material to our business:

Domain Name	Registrant	Registration Date	Expiry Date
opticalfarmhk.com	Optical Farm	16 December 2015	16 December 2021
kelfred.com.hk	Kelfred	8 June 1998	15 September 2019

## 3. Patent

As at the Latest Practicable Date, our Group had registered the following patents in the PRC which we believe are material to our business:

Patent	Registration number	Name of Registered Owner	Type	Application Date	Expiry Date
A type of fixture which facilitates the attachment of trims on spectacle frames* (一種方便眼鏡架貼飾片的夾具)	ZL 2018 2 1309252.2	Jiangxi Huaqing	Utility Model Patent (實用新型)	14 August 2018	13 August 2028
A type of protective eyeglass frame* (一種具有防護功能的眼鏡框)	ZL 2018 2 1341063.3	Jiangxi Huaqing	Utility Model Patent (實用新型)	20 August 2018	19 August 2028
A type of eyeglass frame with defogging function* (一種具有除霧功能的眼鏡框)	ZL 2018 2 1341116.1	Jiangxi Huaqing	Utility Model Patent (實用新型)	20 August 2018	19 August 2028
A type of eyeglass frame friendly to lens mounting* (一種便於鏡片牢固安裝的眼鏡框)	ZL 2018 2 1341617.X	Jiangxi Huaqing	Utility Model Patent (實用新型)	20 August 2018	19 August 2028
A type of metal eyeglass frame with spring leg* (一種具有彈簧腿的金屬眼鏡框)	ZL 2018 2 1341620.1	Jiangxi Huaqing	Utility Model Patent (實用新型)	20 August 2018	19 August 2028
A type of oven for frame plate processing* (一種板材鏡架加工烘熱器)	ZL 2018 2 1341663.X	Jiangxi Huaqing	Utility Model Patent (實用新型)	20 August 2018	19 August 2028

Patent	Registration number	Name of Registered Owner	Type	Application Date	Expiry Date
A type of eyeglass frame preventing lens from falling off* (一種防止鏡片脫落的眼鏡框)	ZL 2018 2 1343396.4X	Jiangxi Huaqing	Utility Model Patent (實用新型)	20 August 2018	19 August 2028
A type of cleaning equipment friendly to eyeglass processing* (一種便捷的眼鏡加工清洗設備)	ZL 2018 2 1343407.4	Jiangxi Huaqing	Utility Model Patent (實用新型)	20 August 2018	19 August 2028
A type of eyeglass frame made of new type of plate* (一種新型板材眼鏡框)	ZL 2018 2 1343427.1	Jiangxi Huaqing	Utility Model Patent (實用新型)	20 August 2018	19 August 2028
A type of anti-wear off eyeglass frame* (一種佩戴防脫的眼鏡框)	ZL 2018 2 1344313.9	Jiangxi Huaqing	Utility Model Patent (實用新型)	20 August 2018	19 August 2028
A type of sunglass with eye protection function* (一種具有護眼功能的太陽鏡)	ZL 2018 2 1344314.3	Jiangxi Huaqing	Utility Model Patent (實用新型)	20 August 2018	19 August 2028
A type of myopia-eyeglass frame for daily use (一種日常近視用金屬眼鏡框)	ZL 2018 2 1344315.8	Jiangxi Huaqing	Utility Model Patent (實用新型)	20 August 2018	19 August 2028
A type of polishing machine for eyeglass processing* (一種眼鏡精加工用拋光機)	ZL 2018 2 1344377.9	Jiangxi Huaqing	Utility Model Patent (實用新型)	20 August 2018	19 August 2028
A new type of metal eyeglass frame* (一種新型金屬眼鏡框)	ZL 2018 2 1345599.2	Jiangxi Huaqing	Utility Model Patent (實用新型)	20 August 2018	19 August 2028
A type of fixture for engraving on the leg of eyeglass* (一種眼鏡腿刻飾片槽的夾具)	ZL 2018 2 1345600.1	Jiangxi Huaqing	Utility Model Patent (實用新型)	20 August 2018	19 August 2028
A holder for the purpose of polishing metal eyeglass frame* (一種金屬眼鏡架拋光用固定架)	ZL 2018 2 1370489.1	Jiangxi Huaqing	Utility Model Patent (實用新型)	24 August 2018	23 August 2028
A type of fixture for welding the spring box of leg of metal eyeglass* (一種金屬眼鏡腿彈簧盒焊接夾具)	ZL 2018 2 1370490.4	Jiangxi Huaqing	Utility Model Patent (實用新型)	24 August 2018	23 August 2028

Patent	Registration number	Name of Registered Owner	Type	Application Date	Expiry Date
A type of laser marking machine for leg of eyeglass* (一種眼鏡腿激光打標機)	ZL 2018 2 1371377.8	Jiangxi Huaqing	Utility Model Patent (實用新型)	24 August 2018	23 August 2028
A type of fixture for welding metal eyeglass frame with laser* (一種金屬眼鏡鏡框激光焊接用夾具)	ZL 2018 2 1371378.2	Jiangxi Huaqing	Utility Model Patent (實用新型)	24 August 2018	23 August 2028
A type of holder for the purpose of polishing the leg of metal eyeglass* (一種金屬眼鏡腿拋光用固定架)	ZL 2018 2 1435487.6	Jiangxi Huaqing	Utility Model Patent (實用新型)	3 September 2018	2 September 2028

\* *English translation of its Chinese counterpart is for reference only*

#### 4. Copyright

As at the Latest Practicable Date, our Group had the following copyrights which we believe are material to our business:

Title	Number	Name of Owner	First Publication Date	Registration Date
Hua Qing intelligent system V1.0 for inspecting and analysing the hardness and toughness of flat eyeglass lens* (華清平光眼鏡鏡片硬度和韌度智能檢查分析系統V1.0)	2019SR0373013	Shenzhen Hua Qing	Not yet published	23 April 2019
Hua Qing sunglass frame pattern design and management system V1.0* (華清太陽眼鏡鏡框圖案設計製作管理系統V1.0)	2019SR0373786	Shenzhen Hua Qing	Not yet published	23 April 2019



Title	Number	Name of Owner	First Publication Date	Registration Date
Hua Qing intelligent system V1.0 for inspecting and analysing the thickness of sunglass lens* (華清太陽眼鏡鏡片厚度智能檢測分析系統V1.0)	2019SR0373801	Shenzhen Hua Qing	Not yet published	23 April 2019
Hua Qing sunglass lens colour rendering management system V1.0* (華清太陽眼鏡鏡片顏色渲染管理系統V1.0)	2019SR0373815	Shenzhen Hua Qing	Not yet published	23 April 2019
Hua Qing sunglass clips design and management system V1.0* (華清太陽眼鏡夾片設計製作管理系統V1.0)	2019SR0373832	Shenzhen Hua Qing	Not yet published	23 April 2019
Hua Qing intelligent system V1.0 for inspecting and analysing the transmittance of sunglass lens* (華清太陽眼鏡鏡片透光率智能檢測系統V1.0)	2019SR0373841	Shenzhen Hua Qing	Not yet published	23 April 2019
Hua Qing intelligent system V1.0 for inspecting and analysing the tensile strength of flat eyeglass lens* (華清平光眼鏡鏡片抗張強度智能檢測分析系統V1.0)	2019SR0373932	Shenzhen Hua Qing	Not yet published	23 April 2019

Title	Number	Name of Owner	First Publication Date	Registration Date
Hua Qing flat eyeglass lens colour rendering management system V1.0* (華清平光眼鏡鏡片顏色渲染管理系統)	2019SR0378307	Shenzhen Hua Qing	Not yet published	23 April 2019
Hua Qing intelligent system V1.0 for inspecting and analysing the transmittance of flat eyeglass lens* (華清平光眼鏡鏡片透明度智能檢測分析系統V1.0)	2019SR0378735	Shenzhen Hua Qing	Not yet published	23 April 2019
Hua Qing intelligent system V1.0 for inspecting and analysing the modulus elasticity of flat eyeglass lens* (華清平光眼鏡片彈性模量智能檢測分析系統V1.0)	2019SR0379042	Shenzhen Hua Qing	Not yet published	23 April 2019
Hua Qing pattern design and management system V1.0 for flat eyeglass frames* (華清平光眼鏡鏡框圖案設計製作管理系統V1.0)	2019SR0380007	Shenzhen Hua Qing	Not yet published	23 April 2019
Hua Qing intelligent system V1.0 for inspecting and analysing the colouring of dyed lens of sunglass* (華清太陽眼鏡染色鏡片色彩智能分析系統V1.0)	2019SR0380011	Shenzhen Hua Qing	Not yet published	23 April 2019

\* *English translation of its Chinese counterpart is for reference only*

**D. DISCLOSURE OF INTERESTS****1. Interests and short positions of our Directors and chief executive in the Shares, underlying Shares and debentures of our Company and its associated corporations**

Immediately following completion of the Share Offer and the Capitalisation Issue, taking no account of the Shares which may be allotted and issued pursuant to the exercise of any options which may be granted under the Share Option Scheme, the interests and short positions of our Directors or chief executive of our Company in the Shares, underlying Shares and debentures of our Company or any of the associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interests which they are taken or deemed to have under such provisions of the SFO) or will be required, pursuant to section 352 of the SFO, to be entered in the register as referred to therein, or will be required, or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules, to be notified to our Company and the Stock Exchange, in each case once the Shares are listed on the Stock Exchange, will be as follows:

**(a) Long position in Shares**

<b>Name of Director</b>	<b>Capacity/nature of interest</b>	<b>Number of Shares (Note 4)</b>	<b>Approximate percentage of shareholding interests of our Company</b>
Mr. Joe Kwok	Interest in a controlled corporation (Note 1)	375,000,000 (L)	75%
Mr. Ken Kwok	Interest in a controlled corporation (Note 1)	375,000,000 (L)	75%
Mrs. Kwok	Interest in a controlled corporation; interest held jointly with another person (Note 2)	375,000,000 (L)	75%
Mr. Kwok	Interest of Spouse (Note 3)	375,000,000 (L)	75%

*Notes:*

1. Conquer is owned as to 2% by Mrs. Kwok, 49% by Mr. Joe Kwok and 49% by Mr. Ken Kwok. As each of Mr. Joe Kwok and Mr. Ken Kwok holds 49% shareholding interest in Conquer, each of Mr. Joe Kwok and Mr. Ken Kwok is deemed to be interested in the Shares held by Conquer under the SFO.
2. On 3 January 2019, Mr. Kwok, Mrs. Kwok, Mr. Joe Kwok and Mr. Ken Kwok entered into the Concert Parties Confirmatory Deed to acknowledge and confirm, among other things, that they are parties acting in concert in respect of each of the members of our Group since their respective dates of incorporation and shall continue to do so after the date of the Concert Parties Confirmatory Deed. Details of the Concert Parties Confirmatory Deed are set out in the paragraph headed “History, Reorganisation and Group Structure – Parties acting in concert” in this prospectus. Accordingly, Mrs. Kwok, Mr. Joe Kwok, Mr. Ken Kwok and Conquer are considered as a group of Controlling Shareholders and Mrs. Kwok is deemed to be interested in the Shares held by Conquer under the SFO.
3. Mr. Kwok is the spouse of Mrs. Kwok and is deemed to be interested in all the Shares interested by Mrs. Kwok for the purposes of the SFO.
4. The Letter “L denotes the entity/person’s long interest in our Shares.

*(b) Long position in Conquer, an associated corporation of our Company*

Name of Director	Capacity/nature of interest	Percentage of the issued share capital of Conquer
Mr. Joe Kwok	Beneficial owner	49%
Mr. Ken Kwok	Beneficial owner	49%
Mrs. Kwok	Beneficial owner	2%

## 2. Interests and short positions of Substantial Shareholders in the Shares, and underlying Shares of our Company

So far as it is known to our Directors and save as disclosed in this prospectus, immediately following completion of the Share Offer and the Capitalisation Issue, and taking no account of any Shares to be allotted and issued pursuant to the exercise of any options which may be granted under the Share Option Scheme, the following persons will have interests or short positions in the Shares or underlying Shares which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who are, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group:

Name of Substantial Shareholders	Capacity/Nature of Interest	Number of Shares (Note 1)	Approximate percentage of shareholding interests of our Company
Conquer <sup>(Note 2)</sup>	Beneficial owner	375,000,000 (L)	75%
Mr. Joe Kwok <sup>(Note 2)</sup>	Interest in controlled corporation	375,000,000 (L)	75%
Ms. Lee <sup>(Note 3)</sup>	Interest of spouse	375,000,000 (L)	75%
Mr. Ken Kwok <sup>(Note 2)</sup>	Interest in controlled corporation	375,000,000 (L)	75%
Ms. Siu <sup>(Note 4)</sup>	Interest of spouse	375,000,000 (L)	75%
Mrs. Kwok <sup>(Note 5)</sup>	Interest in controlled corporation; interest held jointly with another person	375,000,000 (L)	75%
Mr. Kwok <sup>(Note 6)</sup>	Interest of spouse	375,000,000 (L)	75%

*Notes:*

1. The Letter “L” denotes the entity/person’s long interest in our Shares.
2. Conquer is owned as to 2% by Mrs. Kwok, 49% by Mr. Joe Kwok and 49% by Mr. Ken Kwok. As each of Mr. Joe Kwok and Mr. Ken Kwok hold 49% shareholding interest in Conquer, each of Mr. Joe Kwok and Mr. Ken Kwok is deemed to be interested in the Shares held by Conquer under the SFO.
3. Ms. Lee is the spouse of Mr. Joe Kwok and is deemed to be interested in all the Shares interested by Mr. Joe Kwok for the purposes of the SFO.
4. Ms. Siu is the spouse of Mr. Ken Kwok and is deemed to be interested in all the Shares interested by Mr. Ken Kwok for the purposes of the SFO.

5. On 3 January 2019, Mr. Kwok, Mrs. Kwok, Mr. Joe Kwok and Mr. Ken Kwok entered into the Concert Parties Confirmatory Deed to acknowledge and confirm, among other things, that they are parties acting in concert in respect of each of the members of our Group since their respective dates of incorporation and shall continue to do so after the date of the Concert Parties Confirmatory Deed. Details of the Concert Parties Confirmatory Deed are set out in the paragraph headed “History, Reorganisation and Group Structure – Parties acting in concert” in this prospectus. Accordingly, Mrs. Kwok, Mr. Joe Kwok, Mr. Ken Kwok and Conquer are considered as a group of Controlling Shareholders and Mrs. Kwok is deemed to be interested in the Shares held by Conquer under the SFO.
6. Mr. Kwok is the spouse of Mrs. Kwok and is deemed to be interested in all the Shares interested by Mrs. Kwok for the purposes of the SFO.

### 3. Particulars of service agreements

Each of our executive Directors has entered into a service agreement with our Company. The terms and conditions of each of such service agreements are similar in all material aspects and are briefly described as follows:

- (a) Each service agreement is for an initial fixed term of three years commencing from the Listing Date and shall continue thereafter until it is terminated by either party by giving not less than three months’ notice in writing at any time after such initial fixed term to the other, provided that our Company may terminate the agreement by giving to our executive Director not less than three months’ prior notice in writing at any time after the date of the agreement. The appointment shall terminate automatically in the event of our executive Director ceasing to be a director for whatever reason.
- (b) Under the arrangements currently proposed, conditional upon the Listing, the annual remuneration (excluding payment pursuant to any discretionary benefits or bonus, granting of share options or other fringe benefits) payable by our Group to each of Mr. Joe Kwok and Mr. Ken Kwok will be approximately HK\$2.1 million.
- (c) Each of our executive Directors may be entitled to, if so recommended by our remuneration committee and approved by our Board at its absolute discretion, a discretionary bonus, the amount of which is determined with reference to the operating results of our Group and the performance of our executive Director.

Each of Mr. Kwok and Mrs. Kwok, our non-executive Directors, has entered into a service agreement with our Company under which each of them is appointed for a period of three years commencing from the Listing Date. The annual directors’ fee payable to Mr. Kwok and Mrs. Kwok shall be HK\$455,000 and HK\$455,000 (inclusive of salary, commission, housing reimbursement and allowances) respectively. Save for the annual director’s fee mentioned above, Mr. Kwok and Mrs. Kwok are expected not to receive any other remuneration for holding their offices as our non-executive Directors.

Each of our independent non-executive Directors has entered into a letter of appointment with our Company under which each of them is appointed for a period of one year commencing from the Listing Date. The annual director's fee payable to each of Mr. Chan Hon Wah, Mr. Chu Kin Ming and Mr. Lee Wai Ming under their respective letter of appointment shall be HK\$180,000. Save for the annual director's fees mentioned above, none of our independent non-executive Directors is expected to receive any other remuneration for holding his office as an independent non-executive Director.

Save as disclosed above, none of our Directors has or is proposed to have any service agreement or letter of appointment with our Company or any of its subsidiaries (other than contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

#### **4. Remuneration of Directors**

During the Track Record Period, our Directors confirmed that our Group's remuneration policy for our Directors and senior management member of the subsidiaries were based on their experience, level of responsibility and general market conditions. Any discretionary bonus was linked to the business performance of our Group and the individual performance of such Directors and senior management member. Our Company intends to adopt the same remuneration policy after the Listing, subject to the review by and the recommendations of our remuneration committee.

For each of the three years ended 31 December 2018, the aggregate amount of fees, salaries, allowances, discretionary payments, bonuses and contribution to pension schemes paid by our Company to our Directors were approximately HK\$4.7 million, HK\$4.4 million and HK\$4.0 million, respectively.

Further information in respect of our Directors' emoluments is set out in Appendix I to this prospectus. It is expected that the aggregate emoluments (excluding payment pursuant to any discretionary bonus or granting of share options) payable by our Group to our Directors (including our independent non-executive Directors) for the year ending 31 December 2019 will be approximately HK\$5.4 million.

Save as disclosed in Appendix I to this prospectus, none of our Directors received any remuneration or benefits in kind from our Group during the Track Record Period.

**5. Disclaimers**

Save as disclosed in this prospectus:

- (a) so far as our Directors are aware, none of our Directors or chief executive has any interest or short position in the shares, underlying shares or debentures of our Company or any of its associated corporations (within the meaning of Part XV of the SFO) immediately following the completion of the Share Offer and assuming that the options which may be granted under the Share Option Scheme are not exercised, which will have to be notified to our Company and the Stock Exchange under Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he will be taken or deemed to have under the SFO) once the Shares are listed, or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein once the Shares are listed, or which will be required, pursuant to the Listing Rules relating to securities transactions by our Directors to be notified to our Company and the Stock Exchange, once the Shares are listed;
- (b) so far as our Directors are aware, none of our Directors and experts referred to under the paragraph headed “F. Other information – 6. Qualifications of experts” of this Appendix has any direct or indirect interest in the promotion of our Company, or in any assets which have within the two years immediately preceding the date of this prospectus been acquired or disposed of by or leased to any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group;
- (c) none of our Directors and experts referred to under the paragraph headed “F. Other information – 6. Qualifications of experts” of this Appendix is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of our Group taken as a whole;
- (d) none of our Directors has any existing or proposed service agreements with any member of our Group, excluding agreements which are determinable by the employer within one year without payment of compensation other than statutory compensation;
- (e) taking no account of any Shares which may be allotted and issued pursuant to the exercise of any options which may be granted under the Share Option Scheme, our Directors are not aware of any person, not being a Director of our Company, who will, immediately following completion of the Share Offer and the Capitalisation Issue, be interested in or has short positions in the Shares or underlying shares of our Company which have to be notified to our Company and the Stock Exchange under Divisions 2 and 3 of Part XV of the SFO once the Shares are listed, or who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group;



- (f) none of the experts referred to under the paragraph headed “F. Other information – 6. Qualifications of experts” of this Appendix has any shareholding in any member of our Group or the right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of our Group; and
- (g) none of our Directors, their associates or any shareholder of our Company (which to the knowledge of our Directors owns more than 5% of our Company’s issued share capital) has any interest in our Group’s five largest suppliers and five largest clients.

#### **6. Agency fees or commissions received**

Information on the agency fees or commissions received by the Underwriters is set out in section headed “Underwriting” in this prospectus.

Save as disclosed herein and in the section headed “Directors, Senior Management and Employees” and the Accountants’ Report set out in Appendix I to this prospectus, none of the Directors, or the experts named in the paragraph headed “F. Other information – 6. Qualifications of experts” in this appendix had received any agency fee, commissions, discounts, brokerages or other special terms in connection with the issue or sale of any capital of any member of our Group from our Group within the two years immediately preceding the date of this prospectus.

#### **7. Related party transactions**

For details of the related party transactions of our Group entered into within two years immediately preceding the date of this prospectus, please refer to the Accountants’ Report set out in Appendix I to this prospectus and the section headed “Continuing Connected transactions” in this prospectus.

### **E. SHARE OPTION SCHEME**

The principal terms of the Share Option Scheme conditionally adopted under the written resolutions of our sole Shareholder passed on 22 June 2019 are set out below:

#### **1. Purpose of the Share Option Scheme**

The Share Option Scheme is an incentive scheme and is established to recognise and motivate the contributions that Eligible Participants (as defined below) have made or may make to our Group.

The Share Option Scheme will provide the Eligible Participants (as defined below) with an opportunity to acquire proprietary interests in our Company with the view to achieve the following principal objectives:

- (a) motivate the Eligible Participants (as defined below) to optimise their performance and efficiency for the benefit of our Group; and

- (b) attract and retain or otherwise maintain ongoing business relationship with the Eligible Participants (as defined below) whose contributions are, will or expected to be beneficial to our Group.

For the purpose of the Share Option Scheme, “Eligible Participants” means any person who satisfies the eligibility criteria in paragraph 2 below.

## 2. Who may join and basis of eligibility

Our Board may at its discretion grant options to:

- (i) any Eligible Employees. “**Eligible Employees**” means any employees (whether full time or part time, including any executive director but excluding any non-executive director) of our Company, any subsidiary or any entity in which our Group holds at least 20% of its issued share capital (“**Invested Entity**”);
- (ii) any non-executive director (including independent non-executive directors) of our Company, any subsidiary or any Invested Entity;
- (iii) any supplier of goods or services of any member of our Group or any Invested Entity;
- (iv) any customer of any member of our Group or any Invested Entity;
- (v) any person or entity that provides research, development or other technological support to any member of our Group or any Invested Entity;
- (vi) any shareholder of any member of our Group or any Invested Entity or any holder of any securities issued by any member of our Group or any Invested Entity;
- (vii) any adviser (professional or otherwise) or consultant to any area of business or business development of any member of our Group or any Invested Entity; and
- (viii) any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement to the development and growth of our Group,

and, for the purposes of the Share Option Scheme, offer for the grant of an option (“**Offer**”) may be made to any company wholly owned by one or more Eligible Participants.

The basis of eligibility of any participant to be granted any option shall be determined by our Directors (or as the case may be, the independent non-executive Directors) from time to time on the basis of his/her contribution or potential contribution to the development and growth of our Group.

### 3. Subscription Price of Shares

The subscription price for any Share under the Share Option Scheme shall subject to any adjustments made pursuant to paragraph 14 below, be a price determined by our Directors and shall not be less than the highest of: (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet for trade in one or more board lots of the Shares on the offer date, which must be a day on which the Stock Exchange is open for the business of dealing in securities (a "**Trading Day**"); (ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five Trading Days immediately preceding the offer date. For the purpose of calculating the subscription price where our Company has been listed for less than five Trading Days, the Offer Price of the Shares shall be used as the closing price of the Shares for any Trading Days falling within the period before the Listing Date; and (iii) the nominal value of a Share on the offer date.

### 4. Grant of options and acceptance of offers

An Offer shall be deemed to have been accepted by an Eligible Participant when our Company receives the letter containing the Offer duly signed by the grantee together with a remittance of HK\$1.00 (or such other nominal sum in any currency as our Directors may determine) in favour of our Company as consideration for the grant thereof within such time as may be specified in the Offer (which shall not be later than 21 days from the offer date). Such remittance shall in no circumstances be refundable. Once accepted, the option is granted as from the offer date, which must be a Trading Day, on which the option was made to an Eligible Participant.

### 5. Maximum number of Shares

- (i) Subject to sub-paragraphs (ii) to (iv) below, the maximum number of Shares in respect of which options may be granted under the Share Option Scheme and any other schemes shall not, in aggregate, exceed 10% of the Shares in issue as at the Listing Date (the "**Scheme Mandate Limit**") unless approved by our Shareholders pursuant to sub-paragraph (iii) below. Options lapsed in accordance with the terms of the scheme(s) will not be counted for the purpose of calculating the Scheme Mandate Limit.
- (ii) Subject to sub-paragraphs (iii) and (iv) below, the Scheme Mandate Limit may be renewed by our Shareholders in general meeting from time to time provided always that the Scheme Mandate Limit so renewed must not exceed 10% of the Shares in issue as at the date of approval of such renewal by our Shareholders. Upon such renewal, all options granted under the Share Option Scheme and any other share option schemes of our Company (including those exercised, outstanding, cancelled, lapsed in accordance with the terms of the Share Option Scheme or any other share option schemes of our Company) prior to the approval of such renewal shall not be counted for the purpose of calculating the Scheme Mandate Limit as renewed. A circular must be sent to our Shareholders containing such relevant information from time to time as required by the Listing Rules in connection with the general meeting at which their approval is sought.

- (iii) Subject to sub-paragraph (iv) below, our Directors may seek separate Shareholders' approval in general meeting to grant options beyond the Scheme Mandate Limit provided that the options in excess of the Scheme Mandate Limit are granted only to the Eligible Participants specifically identified by our Company before such approval is sought and our Company must issue a circular to our Shareholders containing such relevant information from time to time as required by the Listing Rules in relation to any such proposed grant to such Eligible Participants.
- (iv) The maximum number of Shares which may be allotted and issued upon the exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes adopted by our Group must not, in aggregate, exceed 30% of the Shares in issue from time to time. No options may be granted under the Share Option Scheme or any other share option schemes adopted by our Group if such grant will result in the said 30% limit being exceeded.

#### **6. Maximum entitlement of each participant**

No option shall be granted to any Eligible Participant which, if exercised in full would result in the total number of the Shares issued and to be issued upon exercise of the options already granted or to be granted to such Eligible Participant under the Share Option Scheme (including exercised, cancelled and outstanding share options) in any 12-month period up to and including the date of such grant exceeding 1% in aggregate of the Shares in issue as at the date of such grant. Any grant of further options above this limit shall be subject to the following requirements:

- (i) approval of our Shareholders at general meeting, with such Eligible Participant and his/her close associates (or his/her associates if the Eligible Participant is a connected person) abstaining from voting;
- (ii) a circular in relation to the proposal for such further grant must be sent by our Company to our Shareholders with such information from time to time as required by the Listing Rules;
- (iii) the number and terms of the options to be granted to such proposed grantee shall be fixed before our Shareholders' approval mentioned in (i) above; and
- (iv) for the purpose of calculating the minimum exercise price for the Shares in respect of the further options proposed to be so granted, the date of board meeting for proposing such grant of further options shall be taken as the date of offer of such options.

#### **7. Requirements on granting options to certain connected persons**

Any grant of options to any Director, chief executive or substantial Shareholder of our Company, or any of their respective associates, must be approved by our independent non-executive Directors (excluding an independent non-executive Director who or whose associate is a proposed grantee of an option).

Where any grant of options to a substantial Shareholder of our Company or an independent non-executive Director or any of their respective associates would result in the total number of the Shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant:

- (i) representing in aggregate over 0.1% of the total number of Shares in issue; and
- (ii) having an aggregate value, based on the closing price of the Shares at the date of such grant, in excess of HK\$5 million,

such further grant of options must be approved by our Shareholders by poll in general meeting where the grantee, his/her associates and core connected persons of our Company must abstain from voting in favour at such general meeting. Our Company shall send a circular to our Shareholders containing the information required under the Listing Rules.

#### **8. Restrictions on the time of grant of options**

No option shall be granted after “Inside Information” (as defined in the SFO) has come to the knowledge of our Company until our Company has announced the information. In particular, it may not grant any option during the period commencing one month immediately before the earlier of (i) the date of our Board meeting (as such date is first notified to the Stock Exchange under the Listing Rules) for approving our Company’s results for any year, half-year or any other interim period (whether or not required under the Listing Rules); and (ii) the deadline for our Company to announce our results for any year or half-year under the Listing Rules, or any other interim period (whether or not required under the Listing Rules), and ending on the date of the results announcement. No option may be granted during any period of delay in publishing a results announcement.

Our Directors may not make any offer to an Eligible Participant who is a Director during the periods or times in which our Directors are prohibited from dealing in Shares pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers prescribed by the Listing Rules or any corresponding code or securities dealing restrictions adopted by our Company.

#### **9. Time of exercise of option**

An option may (and may only) be exercised in accordance with the terms and conditions of the offer at any time during a period to be determined by our Directors which shall not exceed 10 years from the offer date subject to the provisions for early termination contained in the Offer and the Share Option Scheme, and provided that our Directors may determine the minimum period for which an option has to be held or other restrictions before its exercise.

The grantee shall not exercise an option to the extent that the public float of our Company will be less than 25% (or such higher percentage as required by the Stock Exchange or the Listing Rules) of the issued share capital of our Company immediately after the issue and allotment of the Shares upon such exercise of the option.

**10. Performance targets**

Save as determined by our Directors and provided in the Offer, a grantee is not required to achieve any performance target before the options can be exercised.

**11. Ranking of Shares**

The Shares to be allotted and issued upon exercise of an option shall be subject to all the provisions of the Articles of our Company for the time being in force and shall rank *pari passu* in all respects with the then existing fully paid Shares in issue on the allotment date and accordingly shall entitle the holders to participate in all dividends or other distributions paid or made on or after the allotment date other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefor shall be before the allotment date. Any Share allotted and issued upon the exercise of an option shall not carry voting rights until the name of the grantee has been duly entered into the register of members of our Company as the holder thereof.

**12. Rights are personal to grantee**

An option shall be personal to the grantee and shall not be transferable or assignable and no grantee shall in any way sell, transfer, charge, mortgage, encumber or otherwise dispose of or create any interest whatsoever in favour of any third party over or in relation to any option or enter into any agreement so to do.

**13. Rights on cessation of employment**

- (i) In the event of death of the grantee (being an individual) before exercising the option in full, his/her personal representatives may exercise the option up to the grantee's entitlement (to the extent exercisable as at the date of his/her death and not already exercised) within a period of 12 months following his/her death or such longer period as our Directors may determine.
- (ii) In the event of the grantee who is an Eligible Employee ceasing to be an Eligible Employee for any reason other than his/her death, or the termination of his/her employment pursuant to paragraph 18(v), the grantee may exercise the option (to the extent exercisable as at the date of such cessation and not already exercised) within 30 days following such cessation or such longer period as our Directors may determine. The date of cessation as aforesaid shall be the last day on which the grantee was actually at work with our Company or the relevant Subsidiary or the Invested Entity whether salary is paid in lieu of notice or not, or such longer period as our Directors may determine.

**14. Effects of alterations to share capital**

In the event of any alteration in the capital structure of our Company while an option remains exercisable or the Share Option Scheme remains in effect, whether by way of capitalisation of profits or reserves, rights issue, consolidation, reclassification, sub-division or reduction of share capital of our Company, such corresponding alterations (if any) shall be made in (i) the number or nominal amount of Shares to which the Share Option Scheme or any option(s) relate (insofar as it is/they are unexercised); and/or (ii) the subscription price; and/or (iii) the method of exercise of the options; and/or the maximum number of Shares subject to the Share Option Scheme.

Any adjustments required under this paragraph must be made in compliance with the Listing Rules and give a grantee the same proportion of the equity capital as that to which that grantee was previously entitled and shall be made on the basis that the aggregate subscription price payable by a grantee on the full exercise of any option shall remain as nearly as possible the same (but shall not be greater than) as it was before such event, but no such adjustments may be made to the extent that Shares would be issued at less than nominal value provided that in such circumstance, the subscription price shall be reduced to the nominal value. For the avoidance of doubt, the issue of securities as consideration in a transaction may not be regarded as a circumstance requiring adjustment. In respect of any such adjustments, other than any made on a capitalisation issue, the independent financial adviser of our Company or the auditors of our Company must confirm to our Board in writing that the adjustments satisfy the requirements of the relevant provisions of the Listing Rules.

**15. Rights on a general offer**

If a general or partial offer, whether by way of take-over offer, share re-purchase offer, or scheme of arrangement or otherwise in like manner, is made to all the holders of Shares, or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in concert with the offeror, our Company shall use all reasonable endeavours to procure that such offer is extended to all the grantees on the same terms, *mutatis mutandis*, and assuming that they will become, by the exercise in full of the options granted to them, our Shareholders. If such offer becomes or is declared unconditional, the grantee shall be entitled to exercise the option (to the extent exercisable as at the date on which the offer becomes or is declared unconditional and not already exercised) in full or in part at any time within 14 days after the date on which the offer becomes or is declared unconditional.

**16. Rights on winding-up**

In the event notice is given by our Company to our Shareholders to convene a shareholders' meeting for the purpose of considering and, if thought fit, approving a resolution to voluntarily wind up our Company, our Company shall forthwith give notice thereof to the grantee and the grantee shall be entitled to exercise all or any of his/her options (to the extent exercisable as at the date of the notice of meeting and not already exercised) at any time not later than two Trading Days (excluding any period(s) of closure of our Company's share registers) prior to the proposed meeting of our Company to consider the winding-up and our Company shall, as soon as possible and in any event no later than the Trading Day (excluding any period(s) of closure of our Company's share registers) immediately prior to the date of the proposed shareholders' meeting, allot and issue such number of Shares to the grantee which falls to be issued on such exercise.

**17. Rights on compromise or arrangement**

In the event of a compromise or arrangement between our Company and our members or creditors being proposed in connection with a scheme for the restructuring, reconstruction or amalgamation of our Company, our Company shall give notice thereof to all grantees on the same date as we give notice of the meeting to our members or creditors to consider such a scheme, and thereupon the grantee shall be entitled to exercise all or any of his/her option(s) (to the extent which has become exercisable as at the date of the notice and not already exercised) at any time not later than two Trading Days (excluding any period(s) of closure of our Company's share registers) prior to the proposed meeting and our Company shall, as soon as possible and in any event no later than the Trading Day (excluding any period(s) of closure of our Company's share registers) immediately prior to the date of the proposed meeting, allot and issue such number of Shares to the grantee which falls to be issued on such exercise.

**18. Lapse of options**

An option (to the extent not already exercised) shall automatically lapse and not be exercisable on the earliest of:

- (i) the expiry of the option period;
- (ii) the expiry of any of the periods referred to in paragraph 13 above;
- (iii) subject to paragraph 16 above, the date of the commencement of the winding-up of our Company;
- (iv) the expiry of the period referred to in paragraph 17 above;



- (v) the date on which the grantee who is an Eligible Employee ceases to be an Eligible Employee by reason of summary dismissal or being dismissed for misconduct or other breach of the terms of his/her employment contract or other contract constituting him/her an Eligible Employee, or the date on which he/she begins to appear to be unable to pay or has no reasonable prospect of being able to pay his/her debts or has become insolvent or has made any arrangements or composition with his/her creditors generally or on which he/she has been convicted of any criminal offence involving his/her integrity or honesty, unless otherwise resolved to the contrary by our Directors;
- (vi) in respect of a grantee other than an Eligible Employee, the date on which our Directors shall at their absolute discretion determine that (i)(a) such grantee has committed any breach of any contract entered into between such grantee on one part and our Group or any Invested Entity on the other part; or (b) such grantee has committed any act of bankruptcy or has become insolvent or is subject to any winding-up, liquidation or analogous proceedings or has made any arrangement or composition with his/her creditors generally; or (c) such grantee could no longer make any contribution to the growth and development of our Group by reason of the cessation of his/her relations with our Group or by any other reason whatsoever; and (ii) the option shall lapse as a result of any event specified in subparagraph (i)(a), (b) or (c) above, unless otherwise resolved to the contrary by our Directors;
- (vii) the expiry of the period referred to in paragraph 15 above; and
- (viii) the date on which the grantee commits a breach of paragraph 12 or any terms or conditions attached to the grant of the option or an event, in respect to a grantee, referred to in sub-paragraph (2) below occurs, unless otherwise resolved to the contrary by our Directors.

If the grantee is a company wholly owned by one or more Eligible Participants:

- (1) the provisions of paragraphs 13(i) and 13(ii), 18(v) and 18(vi) shall apply to the grantee and to the options granted to such grantee, mutatis mutandis, as if such options had been granted to the relevant Eligible Participant, and such options shall accordingly lapse or fail to be exercisable after the event(s) referred to in paragraphs 13(i) and 13(ii), 18(v) and 18(vi) shall occur with respect to the relevant Eligible Participant; and
- (2) the options granted to the grantee shall lapse and determine on the date the grantee ceases to be wholly owned by the relevant Eligible Participant,

provided that our Directors may in their absolute discretion decide that such options or any part thereof shall not so lapse or determine subject to such conditions or limitations as they may impose.

**19. Cancellation of options granted but not yet exercised**

Our Directors shall have absolute discretion to cancel any options granted at any time if the grantee so agreed provided that where an option is cancelled and a new option is proposed to be issued to the same grantee, the issue of such new option may only be made with available but unissued options (excluding the cancelled options) within the limit approved by our Shareholders as mentioned in the Share Option Scheme from time to time.

**20. Period of the Share Option Scheme**

Subject to the terms of the Share Option Scheme, the Share Option Scheme shall be valid and effective until the termination date which falls 10 years after the adoption date, after which no further options may be issued. Subject to the above, in all other respects, in particular, in respect of options remaining outstanding, the provisions of the Share Option Scheme shall remain in full force and effect.

Our Directors may impose such terms and conditions of the Offer of grant either on a case-by-case basis or generally as are not inconsistent with the Share Option Scheme including but not limited to the minimum period for which an option must be held before it can be exercised.

**21. Alteration to the Share Option Scheme**

Subject to the terms of the Share Option Scheme, the Share Option Scheme may be altered in any respect by resolution of our Directors except that the terms and conditions of the Share Option Scheme relating to matters set out in Rule 17.03 of the Listing Rules (or any other relevant provisions of the Listing Rules from time to time applicable) cannot be altered to the advantage of grantees or prospective grantees without the prior approval of our Shareholders in general meeting, provided that no such alteration shall operate to affect adversely the terms of issue of any option granted or agreed to be granted prior to such alterations except with the consent or sanction of such majority of the grantee as would be required of our Shareholders under the Articles for the time being of our Company for a variation of the rights attached to the Shares.

Any alterations to the terms and conditions of the Share Option Scheme which are of a material nature or any change to the terms of options granted must be approved by our Shareholders in general meeting, except where such alterations take effect automatically under the existing terms of the Share Option Scheme.

Any change to the authority of our Directors or administrators of the Share Option Scheme in relation to any alteration to the terms of the Share Option Scheme must be approved by our Shareholders in general meeting.

The amended terms of the Share Option Scheme and/or the options must continue to comply with the relevant provisions of the Listing Rules and supplementary guidance on the interpretation of the Listing Rules issued by the Stock Exchange from time to time (including the supplementary guidance attached to the letter from the Stock Exchange dated 5 September 2005 to all issuers relating to Share Option Scheme).

Subject to the above paragraphs, our Directors may at any time alter, amend or modify the terms and conditions of the Share Option Scheme such that the provisions of the Share Option Scheme would comply with all relevant legal and regulatory requirements in all relevant jurisdictions to the extent as considered necessary by our Directors to implement the terms of the Share Option Scheme.

## **22. Termination to the Share Option Scheme**

Our Company by ordinary resolution in general meeting or our Directors may at any time terminate the operation of the Share Option Scheme and in such event, no further options will be offered but the provisions of the Share Option Scheme shall remain in force in all other respects.

Options complying with the provisions of the Listing Rules which are granted during the life of the Share Option Scheme and remain unexpired immediately prior to the termination of the operation of the Share Option Scheme shall continue to be valid and exercisable in accordance with their terms of issue after the termination of the Share Option Scheme.

## **23. Conditions of the Share Option Scheme**

The Share Option Scheme is conditional upon (i) the Stock Exchange granting the approval of the listing of and permission to deal in the Shares on the Main Board of the Stock Exchange and the Shares to be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme in respect of up to 50,000,000 Shares, which represent 10% of the Shares in issue as at the Listing Date and (ii) the commencement of dealings in the Shares on the Stock Exchange.

As at the Latest Practicable Date, no option had been granted by our Company under the Share Option Scheme. An application has been made to the Listing Committee of the Stock Exchange for the approval of the listing of, and permission to deal in the Shares to be issued and allotted by our Company pursuant to the exercise of options that may be granted under the Share Option Scheme in respect of up to 50,000,000 Shares, which represent 10% of the Shares in issue as at the Listing Date.

Our Directors consider it inappropriate to disclose the value of options which may be granted under the Share Option Scheme as if they had been granted as at the Latest Practicable Date. Any such valuation will have to be made on the basis of certain option pricing model or other methodology, which depends on various assumptions including, the exercise price, the exercise period, interest rate, expected volatility and other variables. As no options have been granted, certain variables are not available for calculating the value of options. Our Directors believe that any calculation of the value of options as at the Latest Practicable Date based on a number of speculative assumptions would not be meaningful and would be misleading to investors.

**F. OTHER INFORMATION****1. Tax and other indemnities**

Our Controlling Shareholders have, entered into a Deed of Indemnity in favour of our Company (for itself and as trustee for each of its subsidiaries) pursuant to which our Controlling Shareholders have agreed to jointly and severally indemnify and at all times keep each member of our Group fully and effectively indemnified against, inter alia, the following:

- (a) the amount of any and all taxation paid or required to be paid by any of the members of our Group resulting from or by reference to any income, profits, gains, transactions, events, matters or things earned, accrued, received or entered into (or deemed to be so earned, accrued, received or entered into) or occurring on or before the Listing Date;
- (b) all losses, payments, charges, settlement payment, costs (including legal costs and other professional costs on a full indemnity basis), liability damages, charges, fees, fines or expenses which any of the members of our Group may incur or suffer, accrue, directly or indirectly, from any act of the members of our Group arising from and/or in connection with any of the non-compliances, failures, delay or defect of corporate or regulatory compliance on the part of any or all members of our Group of any provision of, the Companies Ordinance or any other applicable laws in the world of any of the members of our Group on or before the Listing and/or as a result of and/or in relation to all litigations, arbitration, claims (including counter-claims), actions, complaints, demands, judgments and/or legal proceedings by or against any of the members of our Group which was issued, accrued and/or arising from any act of any of the members of our Group at any time on or before the Listing Date;
- (c) any duty, tax or levy which is or hereafter become or should have become payable by our Group by reason of the import or re-import of any dutiable goods, materials or machinery or import or re-import of any processed or semi-finished dutiable goods, materials or machinery or import or re-import of any processed or semi-finished dutiable goods, materials or machinery on or before the Listing Date on which duty, tax or levy has to be paid to the customs and exercise authority or other governmental authority in Hong Kong or other parts of the world pursuant to their respective laws and regulations; and
- (d) all reasonable costs (including all legal cost and other professional costs on a full indemnity basis), expenses, interests, penalties or other liabilities which any member of our Group may incur in connection with:
  - (i) the investigation, assessment or the contesting of any taxation claim;
  - (ii) the settlement of any taxation claim;

- (iii) any legal or arbitration proceedings in which any member of our Group claims under or in respect of the Deed of Indemnity in which judgment or award is given in favour of any member of our Group; or
- (iv) the enforcement of any such settlement or judgment or award in respect of any legal or arbitration proceedings referred to in (iii) above.

Our Controlling Shareholders will, however, not be liable under the Deed of Indemnity to the extent that, among others:

- (a) provision, reserve or allowance has been made for such taxation or liability for such taxation in the audited accounts of our Group for each of the three years ended 31 December 2018; or
- (b) the taxation or liability for such taxation falling on any member of our Group on or after the Listing Date except such taxation or liability would not have arisen but for any act or omission of, or transaction voluntarily effected by our Company or any member of our Group (whether alone or in conjunction with some other act, omission or transaction, whenever occurring) without the prior written consent or agreement of our Controlling Shareholders other than any such act, omission or transaction:
  - (i) carried out or effected in the ordinary course of business or in the ordinary course of acquiring and disposing of capital assets on or before the Listing Date; or
  - (ii) carried out, made or entered into pursuant to a legally binding commitment created on or before the Listing Date; or
  - (iii) consisting of any members of our Group ceasing, or being deemed to cease, to be a member of our Group for the purposes of any matter of taxation on or before the Listing Date; or
- (c) the taxation or liability for such taxation arises or is incurred or is increased by an increase in rates of Taxation or other penalties as a result of any retrospective change in law or practice coming into force after the date of this Deed of Indemnity or any retrospective increase in tax rates coming into force after the date of this Deed of Indemnity; or
- (d) any provisions or reserve made for taxation in the audited accounts of our Group for each of the three years ended 31 December 2018 which is finally established to be an over-provision or an excessive reserve as certified by a firm of accountants acceptable to our Company, then our Controlling Shareholders' liability (if any) in respect of such taxation shall be reduced by an amount not exceeding such over-provision or excessive reserve; or

- (e) for which any member of our Group is liable in respect of or in consequence of any event occurring or income, profits or gain earned, accrued or received or alleged to have been earned, accrued or received or transactions entered into in the ordinary course of business on in the ordinary course of acquiring and disposing of capital assets after the Listing Date.

Our Directors have been advised that no material liability for estate duty is likely to fall on our Company or any of our subsidiaries.

## **2. Litigation**

As at the Latest Practicable Date, to the best of our Directors' knowledge, there is no current litigation or any pending or threatened litigation or arbitration proceedings against any member of our Group that could have a material adverse effect on our Group's financial condition or results of operation.

## **3. The Sole Sponsor**

The Sole Sponsor has made an application on behalf of our Company to the Stock Exchange for listing of, and permission to deal in, the Shares in issue and to be issued as mentioned herein and any Shares which may fall to be allotted and issued pursuant to the exercise of any options which may be granted under the Share Option Scheme on the Stock Exchange.

The Sole Sponsor has confirmed to the Stock Exchange that it satisfies the independence test as stipulated under Rule 3A.07 of the Listing Rules.

The fees of the Sole Sponsor are HK\$4.5 million and are payable by our Company.

## **4. Preliminary expenses**

The preliminary expenses of our Company are approximately HK\$49,920 and are payable by our Company.

There is no annual cost of compliance with applicable rules and regulations during the Track Record Period.

## **5. Promoter**

Our Company has no promoter for the purpose of the Listing Rules.

## 6. Qualifications of experts

The following are the respective qualifications of the experts who have given their opinion or advice which is contained in this prospectus:

<b>Name</b>	<b>Qualification</b>
Cinda International Capital Limited	Licensed corporation to engage in type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO
RSM Hong Kong	Certified Public Accountants
Appleby	Cayman Islands legal advisers
Frost & Sullivan Limited	Industry Consultant
Greater China Appraisal Limited	Property valuer
Alan C. Y. Yung	Barrister-at-law in Hong Kong
Hogan Lovells	Legal advisers to our Company as to International Sanctions Law
China Commercial Law Firm	Legal advisers to our Company as to PRC law
RSM Tax Advisory (Hong Kong) Limited	Tax consultant

None of the experts has any shareholding in any member of our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any members of our Group.

## 7. Consents of experts

Each of the parties listed in the paragraph headed “F. Other information – 6. Qualifications of experts” of this Appendix has given and has not withdrawn his/its written consent to the issue of this prospectus with the inclusion of its letter, report, memorandum, valuation certificate, opinion and/or references to his/its name (as the case may be), all of which are dated the date of this prospectus, in the form and context in which they respectively appear in this prospectus.

## 8. Binding effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of Sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

**9. Share Registrars**

The register of members of our Company will be maintained in the Cayman Islands by Estera Trust (Cayman) Limited and a branch register of members of our Company will be maintained in Hong Kong by Tricor Investor Services Limited. Save where our Directors otherwise agree, all transfers and other documents of title to the Shares must be lodged for registration with, and registered by, our Company's branch share registrar in Hong Kong and may not be lodged in the Cayman Islands.

**10. No material adverse change**

Our Directors confirm that there has been no material adverse change in our financial prospects of our Company or its subsidiaries since 31 December 2018 (being the date to which the latest audited financial statements of our Company were made up).

**11. Miscellaneous**

Save as disclosed herein:

- (a) within the two years immediately preceding the date of this prospectus:
  - (i) no share or loan capital of our Company or any of its subsidiaries has been issued, agree to be issued or is proposed to be issued fully or partly paid either for cash or for a consideration other than cash;
  - (ii) no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of our Company or any of its subsidiaries;
  - (iii) no commission has been paid or payable (except to sub-underwriter) for subscribing or agreeing to subscribe, or procuring or agreeing to procure subscriptions, for any Shares; and
  - (iv) no founder, management or deferred shares of our Company have been issued or agreed to be issued.



- (b) no share, warrant or loan capital of our Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
- (c) all necessary arrangements have been made enabling the Shares to be admitted into CCASS;
- (d) our Directors confirm that none of them shall be required to hold any shares by way of qualification and none of them has any interest in the promotion of our Company;
- (e) there has not been any interruption in the business of our Group which may have or have had a significant effect on the financial position of our Group in the 12 months immediately preceding the date of this prospectus;
- (f) none of the equity and debt securities of our Company is listed or dealt with in any other stock exchange nor is any listing or permission to deal being or proposed to be sought; and
- (g) our Company has no outstanding convertible debt securities.

## **12. Bilingual Prospectus**

The English language and Chinese language versions of this prospectus are being published separately, in reliance upon the exemption provided in section 4 of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong). In case of any discrepancies between the English language version and the Chinese language version, the English language version shall prevail.

**1. DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG**

The documents attached to a copy of this prospectus and delivered to the Registrar of Companies in Hong Kong for registration were, amongst other documents, copies of the Application Forms, the written consents referred to under the paragraph headed “F. Other information – 7. Consents of experts” of Appendix V to this prospectus, and certified copies of the material contracts referred to under the paragraph headed “B. Further information about the business of our Group – 1. Summary of material contracts” of Appendix V to this prospectus.

**2. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection at the office of Hastings & Co. at 5th Floor, Gloucester Tower, The Landmark, 11 Pedder Street, Central, Hong Kong, during normal business hours up to and including the date which is 14 days from the date of this prospectus:

- (a) the Memorandum of Association and the Articles of Association;
- (b) the accountants’ report prepared by RSM Hong Kong, the text of which is set out in Appendix I to this prospectus;
- (c) the audited financial statements of the companies comprising our Group for the three years ended 31 December 2018;
- (d) the report from RSM Hong Kong relating to the unaudited pro forma financial information of our Group, the text of which is set out in Appendix II to this prospectus;
- (e) the Companies Law;
- (f) the letter, valuation certificate and fair rent letter issued by Greater China Appraisal Limited;
- (g) the letter of advice prepared by Appleby summarising the constitution of our Company and certain aspects of the Cayman Islands company law as referred to in Appendix IV to this prospectus;
- (h) the material contracts referred to in the paragraph headed “B. Further information about the business of our Group – 1. Summary of material contracts” of Appendix V to this prospectus;
- (i) the written consents referred to in the paragraph headed “F. Other information – 7. Consents of experts” of Appendix V to this prospectus;

- (j) the rules of the Share Option Scheme;
- (k) the service agreements or letters of appointment of our Directors referred to in the paragraph headed “D. Disclosure of interests – 3. Particulars of service agreements” of Appendix V to this prospectus;
- (l) the Frost & Sullivan Report;
- (m) the legal opinion prepared by Alan C. Y. Yung, barrister-at-law in Hong Kong in respect of certain aspects of Hong Kong laws relating to the operation of our Group;
- (n) the legal opinion issued by China Commercial Law Firm, our PRC Legal Advisers in respect of, inter alia, certain aspects of the PRC laws relating to the business operations of our Group;
- (o) the memorandum of advice issued by Hogan Lovells relating to certain International Sanction laws; and
- (p) the tax opinion issued by RSM Tax Advisory (Hong Kong) Limited.



Kelfred Holdings Limited  
恒發光學控股有限公司