THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in **Continental Holdings Limited**, you should at once hand this circular and the accompanying form of proxy to the purchaser or transferee or to the bank, licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

CONTINENTAL
HOLDINGS LIMITED
恒和珠寶集團有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 00513)

MAJOR TRANSACTION
ACQUISITION OF 85% SHAREHOLDING
IN THE ACQUIRED COMPANIES
AND
NOTICE OF GENERAL MEETING

All capitalized terms used in this circular shall have the meanings set out in the section headed "Definitions" on pages 1 to 3 of this circular.

A letter from the Board is set out on pages 4 to 22 of this circular.

A notice convening the General Meeting to be held at Function Rooms 2&3, 3/F, The Mira Hong Kong, 118 Nathan Road, Tsimshatsui, Kowloon, Hong Kong on Tuesday, 16 July 2019 at 11:00 a.m. is set out at the end of this circular.

A form of proxy for use at the General Meeting is enclosed with this circular. If you are not able to attend the General Meeting, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority to the registered office of Continental Holdings Limited at Flats M and N, 1/F., Kaiser Estate, Phase III, 11 Hok Yuen Street, Hunghom, Kowloon, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the General Meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the General Meeting should you so wish.

27 June 2019

CONTENTS

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

"Acquired Companies"	(a) Novell Enterprises Inc., incorporated in accordance with the laws of the State of New Jersey, and currently owned by the Sellers; and (b) NP Enterprises, LLC (d/b/a Lieberfarb), incorporated in accordance with the laws of the State of New Jersey, and currently owned by Seller I and Seller II
"Acquired Stock"	85% of the issued and outstanding stock and/or membership of the Acquired Companies
"Acquisition"	the proposed acquisition of the Acquired Stock by the Buyer from the relevant Sellers pursuant to the terms and conditions of the SP Agreement
"Announcement"	the announcement dated 8 May 2019 issued by the Company in respect of the SP Agreement
"associate"	as defined in Chapter 14A of the Listing Rules
"Bank Guarantee"	the guarantee that may be provided by the Company to the bank(s) in respect of the bank facilities of the Acquired Companies of up to US$6,000,000 (approximately HK$46,680,000)
"Board"	the board of Directors
"Buyer"	CJ Holdings USA Inc., a New York corporation and a wholly-owned subsidiary of the Company
"Closing"	closing of the Acquisition in accordance with the terms and conditions of the SP Agreement
"Closing Date"	on or before 31 August 2019, or on such other date as the parties to the SP Agreement may mutually agree upon in writing
"Company"	Continental Holdings Limited (Stock Code: 513), a company incorporated in Hong Kong with limited liability, the shares of which are listed on the Main Board of the Stock Exchange

"Conditions"	the conditions precedent to Closing as set out in the SP Agreement
"connected person"	as defined in Chapter 14A of the Listing Rules
"Consideration"	the aggregate of the cash consideration payable by the Buyer to the Sellers for the Acquisition, being US$5,100,000 (approximately HK$39,678,000), and the Bank Guarantee
"Directors"	the directors of the Company
"Enlarged Group"	the Company and its subsidiaries after the Closing of the Acquisition
"General Meeting"	the general meeting of the Company to be convened at Function Rooms 2&3, 3/F, The Mira Hong Kong, 118 Nathan Road, Tsimshatsui, Kowloon, Hong Kong on Tuesday, 16 July 2019 at 11:00 a.m., or any adjournment thereof, to consider and, if thought fit, approve the Acquisition and the transactions under the SP Agreement, the notice of which is set out at the end of this circular
"Group"	the Company and its subsidiaries
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China
"Latest Practicable Date"	24 June 2019, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
"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 the GEM of the Stock Exchange

"PRC"	the People's Republic of China, for the purpose of this circular, excluding Hong Kong, Macau Special Administration Region of the People's Republic of China and Taiwan
"Seller I"	Bruce Pucciarello, a citizen in the USA, who is a third party independent of the Company and connected persons of the Company
"Seller II"	Victor Novogrodzky, a citizen in the USA, who is a third party independent of the Company and connected persons of the Company
"Seller II Related Trust"	two trusts established for the benefits of the family members of Seller II, who are third parties independent of the Company and connected persons of the Company
"Sellers"	collectively, Seller I, Seller II and Seller II Related Trusts
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended from time to time
"Share"	an issued ordinary share of the Company
"Shareholder"	a shareholder of the Company
"SP Agreement"	the stock purchase agreement dated 6 May 2019 entered between the Sellers and the Buyer in relation to the Acquisition and the related transactions
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"USA"	the United States of America
"US$"	United States Dollar, the lawful currency of the United States of America

An exchange rate of US$1 to HK$7.78 is used in this circular for illustration purpose, unless otherwise stated.

CONTINENTAL HOLDINGS LIMITED
恒和珠寶集團有限公司
(Incorporated in Hong Kong with limited liability)
(Stock Code: 00513)

Executive Directors:
Mr. Chan Wai Lap, Victor
Dr. Chan Sing Chuk, Charles, *BBS, JP*
Ms. Cheng Siu Yin, Shirley
Ms. Chan Wai Kei, Vicki
Mr. Wong Edward Gwon-hing

Non-executive Director:
Mr. Yam Tat Wing

Independent non-executive Directors:
Mr. Yu Shiu Tin, Paul, *BBS, MBE, JP*
Mr. Chan Ping Kuen, Derek
Mr. Sze Irons, *BBS, JP*
Mr. Cheung Chi Fai, Frank

Registered office:
Flats M and N, 1/F.
Kaiser Estate, Phase III
11 Hok Yuen Street Hunghom,
Kowloon Hong Kong

27 June 2019

To the Shareholders

Dear Sir or Madam,

MAJOR TRANSACTION
ACQUISITION OF 85% SHAREHOLDING
IN THE ACQUIRED COMPANIES

INTRODUCTION

Reference is made to the Announcement dated 8 May 2019.

Pursuant to the SP Agreement dated 6 May 2019 entered into by the Buyer (a wholly-owned subsidiary of the Company) and the Sellers, the Buyer conditionally agreed to purchase eighty-five percent (85%) of the issued and outstanding stock and/or membership of the Acquired Companies from the Sellers. The maximum amount of the Consideration, consisting of the cash consideration payable by the Buyer to the Sellers for the Acquisition, being US$5,100,000 (approximately HK$39,678,000), and the Bank Guarantee up to US$6,000,000 (approximately HK$46,680,000), amounts to US$11,100,000 (approximately HK$86,358,000).

The Acquired Companies were incorporated under the laws of the State of New Jersey. Novell Enterprises Inc. is a corporation and "stock" refers to the share certificate(s) issued by a corporation. "Outstanding stock" means such stock that has been issued to the shareholders, instead of those being held by the corporation. The concept of membership interest is adopted for an LLC. An LLC does not adopt the concept of "stock" or "issued share certificates". Accordingly, NP Enterprises, LLC has membership interest instead of "stock" or "issued share certificates". "Outstanding membership" means such membership that has been issued to its members, instead of those being held by the LLC.

Closing of the Acquisition is conditional on, among other things, the approval of the Shareholders being obtained at the General Meeting to be convened.

Since the highest of the applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) in respect of the Acquisition falls between 25% and 100%, the Acquisition constitutes a major acquisition for the Company and is subject to the notification, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

The purpose of this circular is to provide the Shareholders with the relevant information with respect to the Acquisition and a notice to convene the General Meeting to seek the requisite Shareholders' approval of the Acquisition.

The Board looks forward to welcoming the Shareholders at the General Meeting, at which an ordinary resolution will be proposed to consider and, if thought fit, approve the Acquisition.

A. SP AGREEMENT

1. Date

6 May 2019

2. Parties

Buyer: CJ Holdings USA Inc., a New York corporation and a wholly-owned subsidiary of the Company

Sellers: (i) Seller I – Bruce Pucciarello, who is a citizen in the USA. He is a founder of the Acquired Companies. He is currently the CEO of the Acquired Companies and will remain in this role after Closing

(ii) Seller II – Victor Novogrodzky, who is a citizen in the USA. He is a founder of the Acquired Companies. He is currently a consultant to the Acquired Companies and will remain in this role after Closing

(iii) Seller II Related Trusts

To the best of the knowledge, information and belief of the Directors having made all reasonable enquiry, the Sellers and their ultimate beneficial owners (if any) are third parties independent of the Company and connected persons of the Company.

3. Assets to be acquired

The Buyer conditionally agreed to purchase from the relevant Sellers the Acquired Stock comprising eighty-five percent (85%) of the issued and outstanding stock and/or membership of the Acquired Companies as follows:

	Approximate percentage of the issued and outstanding stock and/or membership			
	Before Closing		After Closing	
	Novell Enterprises Inc.	NP Enterprises, LLC	Novell Enterprises Inc.	NP Enterprises, LLC
Seller I	33.33%	50%	15%	15%
Seller II	33.33%	50%	Nil	Nil
Related Trusts of Seller II	33.33%	Nil	Nil	Nil
Buyer	Nil	Nil	85%	85%

4. Consideration

The maximum amount of the Consideration, consisting of the cash consideration payable by the Buyer to the Sellers for the Acquisition and the Bank Guarantee, amounts to US$11,100,000 (approximately HK$86,358,000).

The cash consideration for the Acquired Stock is US$5,100,000 (approximately HK$39,678,000), of which US$4,400,000 (approximately HK$34,232,000) is for acquiring 85% of the issued and outstanding stock and/or membership of Novell Enterprises Inc. and US$700,000 (approximately HK$5,446,000) is for acquiring 85% of the issued and outstanding stock and/or membership of NP Enterprises, LLC.

Pursuant to the terms of the SP Agreement,

(a) a deposit of US$510,000 (approximately HK$3,967,800) shall be paid on the date of the SP Agreement; and

(b) the remaining balance of the cash consideration of US$4,590,000 (approximately HK$35,710,200) shall be paid on Closing.

The Consideration was arrived after arm's length negotiations between the Sellers and the Buyer. The Group considered a number of factors in agreeing to the amount of the consideration for the Acquired Stock. It considered firstly and primarily, the Acquired Companies' combined net worth, by reference to the net tangible asset value of Acquired Companies as at 31 December 2018. The Group further took into consideration other subsidiary factors including (a) their track records of earnings and profits in the past by reference to, materially, their historical net profits and the cash flows in recent years; and (b) their performance, business prospects and market position, based on their reputation and brand names established with over thirty years of experience, strong distribution across USA and other factors regarding the business of the Acquired Companies, as set out in the section headed "Reasons for and Benefits of the Acquisition" below. The Group with their decades of experience and market knowledge in the jewellery business remains positive about the overall trend of the jewellery business and the business development of the Acquired Companies in the USA. The Group will also seek to bring further synergy benefits to both the Acquired Companies and the existing jewellery segment of the Group following the Acquisition. Given that approximately 78% of the consideration for the Acquired Stock (approximately US$5,100,000 or HK$39,678,000) may be ascribed to 85% of the net worth of the Acquired Companies as at 31 December 2018 (approximately US$4,679,000 or HK$36,403,000), the Board considers that the amount of the consideration for the Acquired Stock is fair and reasonable.

In negotiating and agreeing the value of the Acquired Companies as a going concern, the parties adopted the accounts of the Acquired Companies made up to 31 December 2018 as the reference accounts, to evaluate the financial position of the underlying business and to negotiate and agree at the Consideration. Under this mechanism (‘‘locked-box mechanism’’) provided by the SP Agreement, the economic benefits and risks with the ordinary course of the underlying business of the Acquired Companies in the interim period up to the closing are taken up by the Buyer. The Consideration has been fixed at the outset, and the Sellers would not be liable for any financial risks (or rewards) to the Acquired Companies after 31 December 2018, unless the Sellers expressly otherwise agree in the SP Agreement. That means the amount of the Consideration will not be adjusted based on the differences between the financial conditions or performance of the Acquired Companies at or after Closing as compared with those as at 31 December 2018. The Company understands that it is one of the common alternatives to preparing completion accounts in the general context of calculating the purchase price for private acquisition transactions, including those in the USA and Europe. The Board has determined that the mechanism set out in the SP Agreement is fair and reasonable after considering a range of factors, including materially:

– The Sellers and the Buyers have certainty about how much the Consideration is going to be paid, and what the financial position of the underlying business of the Acquired Companies would be in exchange for such consideration calculated. The parties agreed that for a transaction of the size of the Acquisition, it would be in both parties’ interests to maintain the structure of the Acquisition in a robust framework without unnecessary potential disputes, and hence completion risks, with the preparation of completion accounts and subsequent price adjustment, a process which is both time-consuming, and complex in terms of accounting and legal technical provisions in order to deal with various eventualities for an active business carried out by the Acquired Companies through its substantial business network in the USA.

– The Group has performed prior to entering into the SP Agreement a focused financial due diligence on the Acquired Companies’ financial position and performance as at 31 December 2018. The Company has set a baseline from its due diligence exercise conducted to facilitate its determination of the Consideration and the risk profile for the ordinary course of business of the Acquired Companies in the interim period. The Sellers have been providing the Group monthly management accounts of the Acquired Companies in the interim period with detailed explanations to enable the Group to review and monitor the financial performance and position of the Acquired Companies. The Board is satisfied that the measures deployed provide sufficient safeguards to monitor and check the performance of the business of the Acquisition Companies in the interim period in line with past practice and parameters.

– The SP Agreement provided the Buyer specific substantive warranties as safeguards against undue financial and economic risks with intervening events, particularly those causing material adverse effect on the Acquired Companies. Occurrence of any material adverse change in the financial condition of the Acquired Companies would entitle the Buyer to rescind the SP Agreement. The interim monthly financial information of the Acquired Companies made available by the Sellers enable the Group to invoke this provision promptly to protect the interests of the Group.

– The Buyer also has at its disposal powers under the SP Agreement to safeguard against impermissible leakage of value commonly provided by the sellers in locked-box transactions in the market in the interim period. Warranties and covenants given by the Sellers stretching back to 31 December 2018 include those prohibiting the Sellers from receiving any rewards or benefits from the companies, and preventing the Acquired Companies from making any unauthorised distributions or other payments, or incuring loans and liabilities other than those in their ordinary course of business.

– After the Acquisition is completed, the Sellers would stay on to work for the Acquired Companies. The continuous involvement of the Sellers in the business of the Acquired Company demonstrates, by action, their commitments to the continuity of the underlying business and their support in providing the extensive warranties and indemnities in the SP Agreement to the Group.

– The commercial focus of the Company is not at the financial position of the Acquired Companies at a particular point in time. Instead, the Board believes the Company should place, and did place, greater emphasis on the business prospects and future performance of the Acquired Companies, rather than on counting their assets and liabilities on delivery to the Group.

The Board based on such considerations have therefore made a commercial decision that the Consideration is fair and reasonable for this Acquisition. The Board is expecting the Acquisition would enable the continuing performance of the Acquired Companies to contribute positively to the earnings of the jewelry business of the Group and its overall earnings in the future.

It is expected that the Consideration payable by the Group under the SP Agreement will be funded by internal resources, and/or bank borrowings of the Group.

5. Conditions to Closing

Closing of the Acquisition is subject to and conditional upon satisfaction or (where applicable) waiver of the Conditions including, among other things:

(a) the representations and warranties of the parties to the SP Agreement being true and correct in all material respects;

(b) the performance of the obligations of the parties as set out in the SP Agreement;

(c) all authorizations, consents or approvals, or notices to or filings with any governmental authority or other person that are required to consummate the contemplated transactions under the SP Agreement (including the approval by the Shareholders of the transactions contemplated under the SP Agreement) having been obtained or made, and no such authorization, consent or approval will have been revoked; and

(d) the personal guarantees given by Seller I and Seller II in respect of an existing bank facility of the Acquired Companies being terminated.

Each party hereto shall use commercially reasonable efforts to take such actions as are necessary to expeditiously satisfy the Conditions. The SP Agreement may be terminated either by the Buyer or any Seller by providing written notice to the other at any time after 31 August 2019.

As at the Latest Practicable Date, Condition (a) has been satisfied.

6. Pre-Closing covenants

From the date of the SP Agreement until the earlier of the Closing or the termination of the SP Agreement, the Sellers have agreed, as part of the conditions to the Closing that, they will cause the Acquired Companies to:

(a) conduct the business conducted by the Acquired Companies only in the ordinary course of business;

(b) use commercially reasonable efforts to maintain the value of the business conducted by the Acquired Companies as a going concern;

(c) use commercially reasonable efforts to preserve intact its business organization and relationships with third parties (including lessors, licensors, suppliers, distributors and customers) and employees; and

(d) consult with the Buyer prior to taking any action or entering into any transaction that may be of strategic importance to an Acquired Company.

The SP Agreement further provided that from its date until the earlier of the Closing or the termination of the SP Agreement, the Acquired Companies will not, without the prior written consent of Buyer, other than in the ordinary course of business:–

(i) sell any assets, other than sales of inventory in the ordinary course of business,

(ii) incur any new debt (which excludes drawing on the existing bank facility of the Acquired Companies and incurring accounts payable, both of which may be done in the ordinary course of business),

(iii) prepay or discharge any existing debt or liabilities (including accounts payable) before normal due dates other than disclosed loan to the Buyer,

(iv) alter or amend its respective organizational documents,

(v) make or change any tax election, adopt or change any accounting method with respect to taxes, file any amended tax Return, consent to any extension or waiver of the limitation period applicable to any tax claim or assessment relating to the Acquired Companies, or take any other similar action relating to the filing of any tax return or the payment of any tax,

(vi) issue or sell equity or rights to acquire equity of any Acquired Company other than in the ordinary course of business,

(vii) declare dividends on, make distributions with respect to, or redeem any portion of, the equity of any Acquired Company,

(viii) materially increase the level of compensation or employee benefits of any employee, except in amounts in keeping with past practices by formulas or otherwise, or

(ix) agree to do any of the foregoing.

7. Representations and warranties

The Sellers have represented and warranted that since the 31 December 2018, there will have occurred no events nor will there exist circumstances which individually or in the aggregate have resulted in a material adverse effect, and that, since 31 December 2018, the business conducted by the Acquired Companies has been conducted in the ordinary course of business, and except as disclosed to the Buyer, or matters which have not had, and are not reasonably likely to have, a material adverse effect:

(a) no Acquired Company has: (i) amended its organizational documents, (ii) amended any term of its outstanding equity interests or other securities or (iii) issued, sold, granted, or otherwise disposed of, its equity interests or other securities;

(b) no Acquired Company has become liable in respect of any guarantee or has incurred, assumed or otherwise become liable in respect of any debt, except for borrowings in the ordinary course of business under the existing bank facility of the Acquired Companies and accounts payable incurred in the ordinary course of business;

(c) no Acquired Company has permitted any of its assets to become subject to an encumbrance save as those permitted ones; or

(d) no Acquired Company has: (i) made any declaration, setting aside or payment of any dividend or other distribution with respect to, or any repurchase, redemption or other acquisition of, any of its capital stock or other equity interests or (ii) entered into, or performed, any transaction with, or for the benefit of, any Seller or any affiliate of any Seller (other than payments made to officers, directors and employees in the ordinary course of business).

"Material adverse effect" means for the purpose of the SP Agreement any event, occurrence, change in facts, condition or other change which, is reasonably likely to be, materially adverse to the business conducted by the Acquired Companies, operations, assets or condition (financial or otherwise) of the Acquired Companies, taken as a whole; provided, however, that material adverse effect shall not include any event, occurrence, change in facts, condition or other change, directly or indirectly, arising out of or attributable to:

(i) general economic or political conditions;

(ii) conditions generally affecting the industries in which the Acquired Companies operate;

(iii) any changes in financial, banking or securities markets in general, including any disruption thereof and any decline in the price of any security or any market index or any change in prevailing interest rates;

(iv) acts of war (whether or not declared), armed hostilities or terrorism, or the escalation or worsening thereof;

(v) any action required or permitted by the SP Agreement, or any action taken (or omitted to be taken), with the written consent of or at the written request of Buyer;

(vi) any matter of which Buyer is aware on the date thereof;

(vii) any changes in applicable legal requirements or accounting rules; or

(viii) the announcement, pendency or completion of the transactions contemplated by the SP Agreement; or

(ix) any natural or man-made disaster or acts of God.

8. Closing

Closing of the Acquisition will take place on the Closing Date, that is, on or before 31 August 2019, or on such other date as the parties to the SP Agreement may mutually agree upon in writing.

Following Closing, the Buyer and Seller I will each own 85% and 15% of the issued and outstanding stock and/or membership of the Acquired Companies, which will become 85%-owned subsidiaries of the Company. Their assets, liabilities and results will be consolidated into the consolidated financial statements of the Group. Seller I shall continue his employment with Novell Enterprises Inc., in accordance with his employment agreement with Novell Enterprises Inc., and Seller II shall continue to serve as a consultant to Novell Enterprises Inc., in accordance with his consulting agreement with Novell Enterprises Inc.

9. Guarantee for bank facilities of the Acquired Companies

Upon Closing, the Company may, if required, provide 100% guarantee for the bank facilities of the Acquired Companies of up to US$6,000,000 (approximately HK$46,680,000).

The maximum amount of the bank facility provided by the existing bank to the Acquired Companies under the existing bank facility is up to US$6,000,000 (approximately HK$46,680,000), of which US$4,364,630 and US$4,557,937 (approximately HK$33,957,000 and HK$35,461,000) have been drawn down as at 31 December 2018 and 30 April 2019 respectively. The bank facility is for supporting the working capital of the Acquired Companies.

The existing bank facility was secured by (i) certain assets (mainly inventories and account receivable) of the Acquired Companies; (ii) a real estate company owned by the Sellers; and (iii) personal guarantee given by Seller I and Seller II.

It is one of the key commercial terms of this bargain, negotiated and agreed with the Sellers on an arm's length basis, that the Group would assume the obligation to provide the 100% guarantee to support this credit line following the change in the ultimate ownership of the Acquired Companies. In accepting the term proposed by the Sellers, the management of the Company also recognized that the existing bank facility has provided, and will continue to provide after the closing, key credit support to ensure the continuity of the business operation of the Acquired Companies.

The 100% guarantee provided by the Company as a listed company provides assurance to the banks to get bank facilities at reasonable rates. The Board considers that the Group (as a 85%-majority shareholder of the Acquired Companies) will also benefit from the availability of and the reasonable rates of the bank facilities of the Acquired Companies as the financial results of the Acquired Companies will be consolidated into the results of the Group as subsidiaries of the Group.

Based on the current scale of operations of the Acquired Companies, the Company views it is imprudent to push up its gearing by further increasing the bank facility with the bank in the short term. As the Acquired Companies' business grow further in the future, the Board may consider to re-negotiate/renewal the bank facility with banks to increase the bank facility amount if so justified by the business scale and needs. In such eventuality, the Company will negotiate with the 15% shareholder of the Acquired Companies with a view to providing proportionate guarantees based on the shareholding percentages of the parties.

Taking into account the purpose of the credit line, its significance to the continuity of the operation of the Acquired Companies, the terms and conditions of the Acquisition as a whole, and the overall commercial benefits it could bring to the Group's business, the Company considers the provision of the 100% guarantee to be fair and reasonable.

B. BACKGROUND OF THE SIGNING OF THE SP AGREEMENT

Pursuant to Rule 14.34 of the Listing Rules, the listed issuer must publish an announcement "as soon as possible" after the terms of a major transaction have been finalized.

On 6 May 2019 (US time) (i.e. 7 May 2019 (Hong Kong time)), the Company was informed by the Sellers' solicitors that the Sellers had signed the SP Agreement and the signature pages of the Sellers had been kept by the Sellers' solicitors. The Company then enquired with the Sellers' solicitors to release the signature pages of the Sellers. However, the Sellers' solicitors requested to have the deposit wired to them simultaneously with the release of the signature pages of the Sellers.

On the same day (i.e. 7 May 2019 (Hong Kong time)), the Company arranged the deposit to be paid to the escrow account by telegraphic transfer and then informed the Seller's solicitors of the transfer.

On 7 May 2019 (US time) (i.e. 8 May 2019 (Hong Kong time)), the Sellers' solicitors released the signature pages of the Sellers to the Company after learning that the deposit was in the process of remittance. As such, the Company only saw the SP Agreement (which was dated 6 May 2019) with the signature pages of the Sellers attached thereto until 8 May 2019 (Hong Kong time).

Upon receipt of the SP Agreement (which was dated 6 May 2019) with the signature pages of the Sellers attached thereto on 8 May 2019 (Hong Kong time), the Company then reviewed again the SP Agreement received with the final version of the SP Agreement circulated during the negotiation process and arranged a director of the Buyer (being a wholly-owned subsidiary of the Company) to sign the SP Agreement as soon as possible which took place on 8 May 2019 (Hong Kong time) after trading hours.

In compliance with the Listing Rules, in particular, Rule 14.34, the Company immediately arranged the announcement in relation to the Acquisition to be finalized and published on 8 May 2019 night (Hong Kong time) which was before the opening/pre-opening session of the next trading day. The Company has published an announcement in relation to the Acquisition as soon as possible on the same day when the SP Agreement is signed by the last party to the SP Agreement and therefore concluded.

C. INFORMATION ON THE ACQUIRED COMPANIES

1. A summary of the audited combined financial information of the Acquired Companies for the two years ended 31 December 2018 is set out below:

	For the years ended 31 December	
	2017	**2018**
	Approximate Amount	*Approximate Amount*
Net profit before taxation and extraordinary items	US$478,000 (HK$3,719,000)	US$63,000 (HK$490,000)
Net profit after taxation and extraordinary items	US$477,000 (HK$3,711,000)	US$61,000 (HK$475,000)

2. The audited combined net asset value of the Acquired Companies as at 31 December 2018 amounted to approximately US$4,679,000 (approximately HK$36,403,000).

D. DISCLAIMER OF OPINION ON THE HISTORICAL FINANCIAL INFORMATION OF THE ACQUIRED COMPANIES

Reference is made to the accountants' report in Appendix II to this circular where the reporting accountants do not express an opinion (''Disclaimer of Opinion'') on the historical financial information of the Acquired Companies for the years ended 31 December 2016, 2017 and 2018 (''Historical Financial Information'').

The reporting accountants express a Disclaimer of Opinion on the Historical Financial Information of the Acquired Companies as they are unable to observe the counting of physical inventories as at 1 January 2016, 31 December 2016 and 31 December 2017. There is no alternative means concerning the quantities of the inventories held by the Acquired Companies as at 1 January 2016, 31 December 2016 and 31 December 2017 available to the reporting accountants. Accordingly, the reporting accountants are unable to obtain sufficient appropriate evidence to satisfy themselves as to whether the carrying amounts of the inventories as at 1 January 2016, 31 December 2016 and 31 December 2017 were fairly stated. Since the carrying amounts of the inventories of USD5,361,612, USD6,346,109 and USD6,563,689 of the Acquired Companies as at 1 January 2016, 31 December 2016 and 2017 respectively affect the determination of cost of sales of USD15,321,421, USD15,392,640 and USD14,273,423 of the Acquired Companies for the years ended 31 December 2016, 2017 and 2018, the reporting accountants were unable to determine whether any adjustments to the statements of profit or loss and other comprehensive income for the years ended 31 December 2016, 2017 and 2018 were necessary. Any adjustments found to be necessary to the carrying amounts of the inventories as at 1 January 2016, 31 December 2016 and 31 December 2017 would have a consequential effect on the Acquired Companies' profit or loss for the years ended 31 December 2016, 2017 and 2018, the related elements making up the statements of cash flows, the statements of changes in equity, and related disclosures in the notes to the Historical Financial Information of the Acquired Companies. Because of the significance of the matter described as above, the reporting accountants have not been able to obtain sufficient appropriate evidence to provide a basis for an opinion. Accordingly, they do not express an opinion on the Historical Financial Information of the Acquired Companies.

The terms of the Acquisition were arrived after arm's length negotiations between the Sellers and the Buyer. As disclosed in the paragraph headed ''Consideration'' in the section headed ''Letter from the Board'', the Consideration was determined with reference to, among other things, the Acquired Companies' combined net worth, their earnings and performance and business prospects and market position.

As the Directors understand, the Acquired Companies are not required to and thus did not previously perform statutory audit for the relevant periods. The reporting accountants, BDO Limited, were appointed by the Company recently for auditing the Historical Financial Information. Therefore, they were not present during any stocktaking to ascertain the Acquired Companies' historical inventory levels as at 1 January 2016, 31 December 2016 and 31 December 2017. Whilst the Acquired Companies have established and maintained inventory records and internal inventory control procedures, and performed physical counts with respect to their inventories regularly for the purpose of their normal course of business, the Acquired Companies' control system and the relevant records available are inadequate to enable the reporting accountants to adopt and perform additional auditing procedures to ascertain the quantities of the inventories as at 1 January 2016, 31 December 2016 and 31 December 2017 to the required auditing standards so as to give an unqualified opinion on the Historical Financial Information. The Board, having considered the information provided by the Acquired Companies and the above situation as a whole, takes the view that the Disclaimer of Opinion relates only to the Historical Financial Information of the Acquired Companies for the years ended 31 December 2016, 2017 and 2018 and does not affect the inventories record of the Acquired Companies as at 31 December 2018. The Board is of the view that the Disclaimer of Opinion does not have effect on (i) the net assets value of the Acquired Companies as at 31 December 2018, and (ii) the business prospects and earning capacity of the Acquired Companies, and that it is fair and reasonable to proceed with the Acquisition.

Further, despite the above mentioned basis of Disclaimer of Opinion of the reporting accountants, the inventory count as at 31 December 2018 was performed by the Acquired Companies and observed by the reporting accountants and the inventory records and inventory quantities as at 31 December 2018 were properly maintained by the Acquired Companies.

The Board therefore expects that the Enlarged Group's financial statements will not be qualified or disclaimed by the Enlarged Group's auditors upon Closing as the Company will implement the following measures to safeguard the same, including, (i) arranging the counting of the physical inventories on a regular basis and (ii) arranging the counting of the physical inventories at the Closing Date and each of the Enlarged Group's financial year end with the Enlarged Group's auditors present. The Board considers that the implementation of the above measures will not cause disclaimer of opinion by reporting accountants for the future financial statements.

Furthermore, the Board believes that the Acquired Companies will achieve growth in profit through their continuing development of own technology, setting of higher benchmarks for speed up delivery and improvement of management systems. The Acquisition will thus help generate return to the shareholders. The Board is of the view that the Acquisition and its terms are fair and reasonable and in the interest of the Company and the shareholders as a whole.

E. FINANCIAL EFFECT OF THE ACQUISITION

1. Effect on assets and liabilities

Upon Closing, the Acquired Companies will become 85%-owned subsidiaries of the Company, resulting in the assets, liabilities and financial results of the Acquired Companies being consolidated into the consolidated financial statements of the Group.

As at 31 December 2018, the Group's unaudited consolidated net asset value was approximately HK$2,195 million, and its total assets and total liabilities stood at approximately HK$3,501 million and HK$1,306 million respectively. Based on the unaudited pro forma financial information of the Enlarged Group as set out in Appendix III to this circular, assuming the Acquisition had been completed on 31 December 2018 in accordance with the SP Agreement, the unaudited pro forma consolidated net asset value of the Enlarged Group would have been increased to approximately HK$2,197 million, whereas the unaudited pro forma consolidated total assets and the unaudited pro forma consolidated total liabilities of the Enlarged Group would have been increased to approximately HK$3,556 million and HK$1,359 million respectively. The unaudited pro forma consolidated net current assets of the Enlarged Group would have been decreased to approximately HK$521 million. Further details are set out in the unaudited pro forma financial information of the Enlarged Group in Appendix III to this Circular.

2. Effect on earnings

The business of Acquired Companies is principally engaged in the manufacturing and trading of gold and platinum wedding bands to large retailers and other specially stores throughout the USA. The Directors are of the view that the Acquisition would likely to have a positive impact on the revenue and earnings of the Group. The Acquired Companies will contribute sales to the Group, and will enhance the revenue stream of the Group upon Completion. The Group's earnings are therefore expected to increase as a result of the sales derived from the Acquired Companies.

F. REASONS FOR, AND BENEFITS OF, THE ACQUISITION

1. The Group is principally engaged in the businesses of (i) design, manufacturing, marketing and trading of fine jewellery and diamonds; (ii) property investment and development; (iii) mining operation; and (iv) investment.

2. The Acquired Companies were incorporated in New Jersey, USA. They are principally engaged in the manufacturing and trading of gold and platinum wedding bands in the USA. The Acquired Companies do not own any real property.

3. The Acquired Companies have strong brand names with over thirty years of experience. They pioneered in cutting edge technology and established a strong distribution to a wide array of jewellery retailers across the USA. The manufacturing facility of the Acquired Companies has been profiled by Manufacturing Jewelers and Suppliers of America as one of the most innovative jewellery manufacturers in America.

4. The Acquired Companies have built a solid reputation for having the largest collection of designed and crafted wedding rings in the industry. The brands appeal to a wide range of consumers with high level of customization. Together with a solid base of core customers, years of successful history, the Acquired Companies are positioned to combine the strengths of the Group's position in jewellery industry and leverage the Group's network and resources to further expand in the USA. The Acquisition is also an important strategy in the Group's ongoing expansion plan. Furthermore, the Acquisition is a good opportunity for the Group to further expand the market share and strengthen its position in USA market.

5. Business Model and Revenue Stream – The Acquired Companies are precious metal jewelry manufacturing and trading companies. The Acquired Companies engaged in the designing, manufacturing and trading of precious metal and jewellery products. Their factory engages in casting, machine fabrication, and hand creating jewelry. They will then sell their products through various channels including to retailing jewelry stores, jewelry wholesalers and designers. The Acquired Companies strive to achieve long term success by conducting research on market and showcasing their sample products at exhibitions.

6. Major Customers and Suppliers of the Acquired Companies – The Acquired Companies manufacture for and sell to various retailers and wholesalers including some of the America's largest jewelry retailers, online jewelry retailers, and fine independent jewelers in USA. The suppliers of the Acquired Companies are suppliers of raw materials, consisting of diamonds, gold, platinum, palladium, and silver. The largest suppliers include refiners/smelters, machine fabrication shops and trade dealers of diamonds in the USA with whom they share an average of approximately twenty-five years of business relationship. The Board understands that, among the suppliers, three of them are the largest precious metal distributers in the world and have deep long-term relationships with the Acquired Companies. Almost all customer/supplier relationships with the Acquired Companies have been in place from twenty to thirty years or more. To the best of the knowledge, information and belief of the Directors having made all reasonable enquiry, the major suppliers and customers of the Acquired Companies are third parties independent from the Company and the Sellers.

7. Competitive Advantages / Strengths – Through the Acquisition, the Group expands its fine jewellery collection to include fine hand and machine-made wedding bands. The stable relationship between the Acquired Companies and their major suppliers and customers is also perfect conduit to the distribution of the products of the Group in the US market. It is believed that the Acquisition will help enhance the market position and competitiveness of the Group in the US market. Further, by combining some of the Group's manufacturing skillsets into the Acquired Companies domestic facility, this will enhance the Group's production capability and speed of product delivery, which will benefit the customers ultimately.

8. The terms of the SP Agreement were negotiated on an arm's length basis. The Directors (including the independent non-executive Directors) have confirmed that the terms of the SP Agreement are fair and reasonable, and that they are on normal commercial terms or better and in the interests of the Company and the Shareholders as a whole.

9. No Director has any material interest in the transactions under the SP Agreement. Accordingly, no Director is required to abstain from voting on the Board resolution approving the Acquisition and the transactions under the SP Agreement.

G. LISTING RULES IMPLICATIONS

1. Since the highest of the applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) in respect of the Acquisition falls between 25% and 100%, the Acquisition constitutes a major acquisition for the Company and is subject to the notification, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

2. The Company will convene the General Meeting, at which an ordinary resolution to approve the Acquisition will be proposed for consideration and passing by the Shareholders.

3. In accordance with Rule 2.15 of the Listing Rules, shareholder(s) with a material interest in the Acquisition and the transaction(s) contemplated under the SP Agreement shall abstain from voting on the resolution approving the Acquisition and the transaction(s) contemplated under the SP Agreement. No shareholder is required to abstain from voting on the resolution to approve the Acquisition and the transaction(s) under the SP Agreement at the General Meeting.

H. GENERAL MEETING AND BOOK CLOSE

1. A notice of the General Meeting to be held at Function Rooms 2&3, 3/F, The Mira Hong Kong, 118 Nathan Road, Tsimshatsui, Kowloon, Hong Kong on Tuesday, 16 July 2019 at 11:00 a.m. is set out at the end of this circular. A form of proxy for use in connection with the General Meeting is enclosed with this circular.

2. The Shareholders will be asked to consider and, if thought fit, to pass an ordinary resolution to be proposed at the General Meeting (the text of which being set out in the notice of General Meeting) approving the Acquisition.

3. In compliance with Rule 13.39(4) of the Listing Rules, the ordinary resolution to be proposed at the General Meeting will be voted by poll. The voting results of the General Meeting will be announced in the manner prescribed under Rule 13.39(5) of the Listing Rules.

4. Whether or not you are able to attend and vote at the General Meeting, please complete and sign the accompanying form of proxy in accordance with the instructions printed thereon and deliver, together with the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority, to the registered office of the Company at Flats M and N, 1/F., Kaiser Estate, Phase III, 11 Hok Yuen Street, Hunghom, Kowloon, Hong Kong as soon as possible and in any event not later than 11:00 a.m. on 14 July 2019 (or if the General Meeting is adjourned, not less than 48 hours before the time appointed for the holding of the adjourned General Meeting). Completion and return of the form of proxy will not preclude you from attending and voting in person at the General Meeting or any adjournment thereof should you so wish.

5. For determining the entitlement to attend and vote at the General Meeting, the register of members of the Company will be closed from 11 July 2019 to 16 July 2019, both dates inclusive, during which period no transfer of Shares will be effected. In order to be eligible to attend and vote at the General Meeting, all duly completed and signed transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration not later than 4:30 p.m. on 10 July 2019.

I. RECOMMENDATION

The Directors consider that the Acquisition is fair and reasonable and in the best interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend all Shareholders to vote in favour of the ordinary resolution to be proposed at the General Meeting.

J. ADDITIONAL INFORMATION

Closing of the Acquisition is subject to the satisfaction or (where applicable) waiver of the Conditions and therefore may or may not take place. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the Shares.

Your attention is drawn to the additional information contained in the Appendices to this circular.

Yours faithfully,
For and on behalf of the Board
Chan Wai Lap, Victor
Chairman

1. AUDITED CONSOLIDATED FINANCIAL INFORMATION OF THE GROUP

The audited consolidated financial statements of the Group, together with the accompanying notes, for each of the three years ended 30 June 2016, 2017 and 2018, are disclosed in the annual reports of the Company for the financial years ended 30 June 2016 (pages 64 to 226), 30 June 2017 (pages 74 to 247) and 30 June 2018 (pages 74 to 259), respectively, and are incorporated by reference into this circular.

The said annual reports of the Company are available on the Company's website at www.continental.com.hk and the Stock Exchange's website at www.hkexnews.hk through the links below:

http://www.hkexnews.hk/listedco/listconews/SEHK/2016/1020/LTN20161020175.pdf

http://www.hkexnews.hk/listedco/listconews/SEHK/2017/1030/LTN20171030245.pdf

http://www3.hkexnews.hk/listedco/listconews/SEHK/2018/1025/LTN20181025389.pdf

2. UNAUDITED CONSOLIDATED FINANCIAL INFORMATION OF THE GROUP

The unaudited consolidated financial statements of the Group, together with the accompanying notes, for the six months ended 31 December 2018, are disclosed in the interim report of the Company for the six months ended 31 December 2018 (pages 2 to 31), and are incorporated by reference into this circular.

The said interim report of the Company is available on the Company's website at www.continental.com.hk and the Stock Exchange's website at www.hkexnews.hk through the links below:

http://www3.hkexnews.hk/listedco/listconews/SEHK/2019/0320/LTN20190320327.pdf

3. INDEBTEDNESS STATEMENT

As at the close of business on 31 May 2019, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining the information contained in this indebtedness statement, the Enlarged Group had total outstanding loans of approximately HK$699,848,000, comprising secured and guaranteed interest bearing bank loans of approximately HK$605,740,000, unsecured and guaranteed interest bearing bank loans of HK$35,000,000, unsecured interest-free amounts due to a controlling shareholder of approximately HK$4,529,000, unsecured interest-free amount due to a non-controlling shareholder of HK$21,671,000, unsecured interest-free amounts due to related companies of approximately HK$32,864,000 and finance lease obligations of approximately HK$44,000. The aforesaid interest bearing bank loans were secured by the Enlarged Group's investment properties, certain of its leasehold land and buildings, land use right, properties under development, property, plant and equipment, intangible assets, inventories, trade receivables, corporate guarantees executed by the Company. As at the close of business on 31 May 2019, the Company had provided guarantees amounting to approximately HK$1,288,000,000 with respect to bank loans to its subsidiaries. Under the guarantees, the Company would be liable to pay the banks if the banks are unable to recover the loans. As at the close of business on 31 May 2019, no provision for the Company's obligation under the guarantee contract has been made as the Directors considered that it was not probable that the repayment of the loans would be in default.

Save as aforesaid and apart from intra-group liabilities, the Enlarged Group did not, at the close of the business on 31 May 2019, have any loan capital issued and outstanding or agreed to be issued, bank overdrafts, charges or debentures, mortgages, loans or other similar indebtedness, finance leases or hire purchase commitment, liabilities under acceptance (other than normal trade bills and payables), acceptance credits, or any guarantees or other material contingent liabilities.

For the purpose of the above indebtedness statement, foreign currency amounts have been translated into Hong Kong dollars at the applicable rates of exchange prevailing at the close of business on 31 May 2019.

4. MATERIAL ADVERSE CHANGE

As disclosed in the profit warning announcement of the Company dated 19 February 2019 and the interim report of the Company dated 25 February 2019 for the six months ended 31 December 2018, the Group recorded a substantial decrease in profit for the six months ended 31 December 2018 as compared to that for the six months ended 31 December 2017. Such decrease in profit is mainly attributable to the absence of share of profit of joint venture of approximately HK$74,377,000 recorded in six months ended 31 December 2017 from a 50% joint venture that holds a shopping mall located in Shanghai, the P.R.C., which was disposed on 20 April 2018.

Save as disclosed, the Directors confirmed that there was no material adverse change in the financial or trading position of the Group since 30 June 2018 (being the date to which the latest published audited consolidated financial statements of the Group have been made up) to the Latest Practicable Date.

5. WORKING CAPITAL STATEMENT

The Directors, after due and careful enquiry, are of the opinion that, after taking into account the cash outflow of the Acquisition and the financial resources presently available to the Enlarged Group, including the internally generated funds and the currently available facilities, the Enlarged Group has sufficient working capital for its normal business for at least the next 12 months from the date of this circular.

6. FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP

Looking ahead, we believe 2019 will be a very challenging year. In view of the growing tension between the United States and the Chinese government, the trading environment is difficult and vulnerable. Meanwhile, coupled with the uncertainty of Brexit and unrest economic situation in Europe will further affect the market sentiment and consumer spending on luxury goods. However, the Enlarged Group remains optimistic and is actively exploring opportunities in expanding our business through strategic partnerships or joint ventures. We are confident that the Enlarged Group will be able to set a stronger foothold in the industry and achieve better results in the future.

With the support of our Group and its extensive resources, the Acquired Companies will be able to bring more leading-edge new products to market and to develop new technology in setting higher benchmarks for speed of delivery and quality of product. The Acquired Companies can offer retailers a multi-channel supply system where the supplier monitors the market for style and price, influencing customers in an ever-changing retail environment. The management of the Enlarged Group believes the Acquired Companies will introduce an exclusive and unique jewellery line to the Group's existing diversified product offerings, particularly in the USA market.

The Group will integrate the Acquired Companies business with its existing business and identify areas where value can be created. The Acquisition is an important strategy in the Group's ongoing expansion plan and is a good opportunity for the Group to further expand the market share and strengthen its position in USA market.

At the same time, the Enlarged Group's management has been actively looking into diversifying the revenue sources. By broadening our property investment as well as seeking other business or investment opportunities, we believe the Enlarged Group will be able to provide a more attractive return on equity for its shareholders.

The following is the text of a report, received from the Company's reporting accountants, BDO Limited, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

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

Introduction

We were engaged to report on the historical financial information of Novell Enterprises Inc. ("Novell") set out on pages II-4 to II-40, which comprises the statements of financial position as at 31 December 2016, 2017 and 2018, and the statements of profit or loss and other comprehensive income, the statements of changes in equity and the statements of cash flows for the years ended 31 December 2016, 2017 and 2018 (the "Relevant Periods") and a summary of significant accounting policies and other explanatory information (together the "Historical Financial Information"). The Historical Financial Information set out on pages II-4 to II-40 forms an integral part of this report, which has been prepared for inclusion in the circular of Continental Holdings Limited (the "Company") dated 27 June 2019 in connection with the proposed acquisition of 85% equity interests in Novell by the Company.

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 3 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 conduct work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 ("HKSIR 200") "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Based on our work done, we express an opinion on the Historical Financial Information and report our opinion to you. HKSIR 200 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. Because of the matter described in the "Basis for disclaimer of opinion" paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for our opinion on the Historical Financial Information.

Basis for disclaimer of opinion

We were appointed as reporting accountants of the Company after 31 December 2017, and thus we did not observe the counting of physical inventories as at 1 January 2016, 31 December 2016 and 31 December 2017. We were unable to satisfy ourselves by alternative means concerning the quantities of inventories held by Novell as at 1 January 2016, 31 December 2016 and 31 December 2017. Accordingly, we are unable to obtain sufficient appropriate evidence to satisfy ourselves as to whether the carrying amounts of the inventories as at 1 January 2016, 31 December 2016 and 31 December 2017 were fairly stated. Since the carrying amounts of the inventories of USD4,817,559, USD5,820,821 and USD6,113,494 as at 1 January 2016, 31 December 2016 and 2017 respectively affect the determination of cost of sales of USD13,079,877, USD13,361,745 and USD12,546,968 for the years ended 31 December 2016, 2017 and 2018, we are unable to determine whether any adjustments to the statements of profit or loss and other comprehensive income for the years ended 31 December 2016, 2017 and 2018 were necessary.

Any adjustments found to be necessary to the carrying amounts of the inventories as at 1 January 2016, 31 December 2016 and 31 December 2017 would have a consequential effect on Novell's profit or loss for the years ended 31 December 2016, 2017 and 2018, the related elements making up the statements of cash flows, the statements of changes in equity, and related disclosures in the notes to the Historical Financial Information.

Disclaimer of opinion

Because of the significance of the matter described in the "Basis for disclaimer of opinion" paragraph, we have not been able to obtain sufficient appropriate evidence to provide a basis for an opinion. Accordingly, we do not express an opinion on the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited

Adjustments

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

BDO Limited
Certified Public Accountants
Yu Tsui Fong
Practising Certificate Number P05440

Hong Kong
27 June 2019

HISTORICAL FINANCIAL INFORMATION OF THE ACQUIRED COMPANIES

A. I. HISTORICAL FINANCIAL INFORMATION OF NOVELL

The following is the Historical Financial Information of Novell prepared by the directors of the Company and forms an integral part of this accountants' report.

The financial statements of Novell for the Relevant Periods (the "Underlying Financial Statements"), on which the Historical Financial Information of Novell is based, were audited by BDO Limited in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

The Historical Financial Information is presented in US Dollars ("USD").

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Year ended 31 December		
		2016	2017	2018
	Notes	*USD*	*USD*	*USD*
Revenue	*6*	16,443,551	16,886,259	15,563,290
Cost of sales		(13,079,877)	(13,361,745)	(12,546,968)
Gross profit		3,363,674	3,524,514	3,016,322
Selling and distribution costs		(558,080)	(585,655)	(575,643)
Administrative expenses		(2,408,000)	(2,462,343)	(2,356,954)
Finance costs	*7*	(134,779)	(158,980)	(223,413)
Profit/(Loss) before income tax	*8*	262,815	317,536	(139,688)
Income tax expense	*9*	(1,500)	(1,125)	(1,875)
Profit/(Loss) and total comprehensive income for the year		261,315	316,411	(141,563)

STATEMENTS OF FINANCIAL POSITION

		As at 31 December		
		2016	2017	2018
	Notes	*USD*	*USD*	*USD*
ASSETS AND LIABILITIES				
Non-current assets				
Property, plant and equipment	*13*	144,956	156,993	144,217
Intangible assets	*14*	337,000	337,000	337,000
Total non-current assets		481,956	493,993	481,217
Current assets				
Inventories	*15*	5,820,821	6,113,494	6,737,084
Trade receivables	*16*	2,969,632	3,271,168	2,826,571
Prepayments		103,621	100,836	111,318
Amounts due from related parties	*17*	1,216,406	983,123	636,799
Cash and cash equivalents	*18*	2,000	2,000	2,000
Total current assets		10,112,480	10,470,621	10,313,772
Current liabilities				
Trade payables	*19*	1,592,691	1,669,384	1,450,819
Contract liabilities	*20*	–	–	17,324
Other payables and accruals		135,726	103,746	86,154
Borrowings	*21*	4,693,656	4,785,423	4,971,091
Amount due to a related party	*22*	81,220	58,507	195,610
Total current liabilities		6,503,293	6,617,060	6,720,998
Net current assets		3,609,187	3,853,561	3,592,774
Total assets less current liabilities		4,091,143	4,347,554	4,073,991
NET ASSETS		4,091,143	4,347,554	4,073,991
EQUITY				
Share capital	*23*	1	1	1
Reserves	*24*	4,091,142	4,347,553	4,073,990
TOTAL EQUITY		4,091,143	4,347,554	4,073,991

STATEMENTS OF CHANGES IN EQUITY

	Share capital *USD*	Additional paid-up capital *USD*	Retained profits *USD*	Total equity *USD*
Balance at 1 January 2016	1	136,690	3,843,137	3,979,828
Distribution *(note 12)*	–	–	(150,000)	(150,000)
Transaction with owners	–	–	(150,000)	(150,000)
Profit and total comprehensive income for the year	–	–	261,315	261,315
Balance at 31 December 2016 and 1 January 2017	1	136,690	3,954,452	4,091,143
Distribution *(note 12)*	–	–	(60,000)	(60,000)
Transaction with owners	–	–	(60,000)	(60,000)
Profit and total comprehensive income for the year	–	–	316,411	316,411
Balance at 31 December 2017 and 1 January 2018	1	136,690	4,210,863	4,347,554
Distribution *(note 12)*	–	–	(132,000)	(132,000)
Transaction with owners	–	–	(132,000)	(132,000)
Loss and total comprehensive income for the year	–	–	(141,563)	(141,563)
Balance at 31 December 2018	1	136,690	3,937,300	4,073,991

STATEMENTS OF CASH FLOWS

	Year ended 31 December		
	2016	2017	2018
	USD	*USD*	*USD*
Cash flows from operating activities			
Profit/(Loss) before income tax	262,815	317,536	(139,688)
Adjustments for:			
Finance costs	134,779	158,980	223,413
Depreciation of property, plant and equipment	97,643	67,225	53,062
Operating profit before working capital changes	495,237	543,741	136,787
Increase in inventories	(1,003,262)	(292,673)	(623,590)
(Increase)/Decrease in trade receivables	(15,270)	(301,536)	444,597
Decrease/(Increase) in prepayments	79,596	2,785	(10,482)
Decrease in amounts due from related parties	149,266	233,283	346,324
Increase/(Decrease) in trade payables	347,018	76,693	(218,565)
Increase/(Decrease) in other payables and accruals	97,886	(31,980)	(17,592)
Increase in contract liabilities	–	–	17,324
(Decrease)/Increase in amount due to a related party	(22,186)	(22,713)	137,103
Cash generated from operations	128,285	207,600	211,906
Income tax paid	(1,500)	(1,125)	(1,875)
Net cash generated from operating activities	126,785	206,475	210,031
Cash flows from investing activities			
Purchase of property, plant and equipment	(20,564)	(79,262)	(40,286)
Net cash used in investing activities	(20,564)	(79,262)	(40,286)
Cash flows from financing activities			
Proceeds from bank borrowings	178,558	91,767	–
Repayment of bank borrowings	–	–	(420,793)
Proceeds from other borrowings	–	–	606,461
Distribution paid	(150,000)	(60,000)	(132,000)
Interest paid	(134,779)	(158,980)	(223,413)
Net cash used in financing activities	(106,221)	(127,213)	(169,745)
Net changes in cash and cash equivalents	–	–	–
Cash and cash equivalents at the beginning of year	2,000	2,000	2,000
Cash and cash equivalents at the end of year	2,000	2,000	2,000

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION OF NOVELL

1. General information

Novell Enterprises Inc. ("Novell") is principally engaged in manufacturing and selling of jewelry. Novell is a limited liability company incorporated in the United States. The address of its principal place of business in the United States is 2100 Felver Court Rahway, New Jersey 07065.

2. Adoption of Hong Kong Financial Reporting Standards ("HKFRSs")

The following new or revised HKFRSs, potentially relevant to the Historical Financial Information, have been issued, but are not yet effective and have not been early adopted by Novell.

Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to HKFRS 3, Business Combinations[1]
Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to HKAS 12, Income Taxes[1]
Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to HKAS 23, Borrowing Costs[1]
Amendments to HKFRS 3	Definition of a Business[2]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to HKAS 1 and HKAS 8	Definition of Material[2]
HKFRS 16	Leases[1]
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments[1]

[1] *Effective for annual periods beginning on or after 1 January 2019*

[2] *Effective for annual periods beginning on or after 1 January 2020*

HKFRS 16 – Leases

HKFRS 16, which upon the effective date will supersede HKAS 17 "Leases" and related interpretations, introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Specifically, under HKFRS 16, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognise depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statements of cash flows. Also, the right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under the predecessor standard, HKAS 17.

In respect of the lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

As set out in note 25 to the Historical Financial Information, total operating lease commitment of Novell in respect of land and buildings as at 31 December 2018 amounted to USD1,958,000. The directors of Novell do not expect the adoption of HKFRS 16 as compared with the current accounting policy would result in a significant impact on Novell's results but it is expected that certain portion of these lease commitments will be required to be recognised in the form of an asset (for the right-of-use) and a liability (for the payment obligation) in the statements of financial position.

Save as disclosed in the foregoing paragraphs about the impact of HKFRS 16 to Novell's Historical Financial Information, the directors of Novell have also performed an assessment on other new standards, amendments and interpretations, and have concluded on a preliminary basis that other new standards and amendments would not have a significant impact on Novell's financial information in subsequent years.

3. Basis of preparation and presentation

(a) Basis of preparation

The principle accounting policies applied in the preparation of the Historical Financial Information which are in accordance with the Hong Kong Financial Reporting Standards ("HKFRS") issued by the HKICPA are set out in Note 4. The preparation of Historical Financial Information in conformity with HKFRSs requires the use of certain critical accounting estimates and key sources of estimation uncertainty. It also requires management of Novell to exercise its judgement in the process of applying Novell's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Historical Financial Information are disclosed in Note 5.

All relevant standards, amendments and interpretations to the existing standard that are effective during the Relevant Periods have been adopted by Novell consistently throughout the Relevant Periods. New standards, amendments to standards and interpretations which have been issued but are not yet effective during the Relevant Periods is set out in Note 2.

(b) Basis of measurement

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

(c) Functional and presentation currency

The Historical Financial Information are presented in USD, which is the same as the functional currency of Novell.

4. Significant accounting policies

(a) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any.

The cost of property, plant and equipment includes its purchase price and the costs directly attributable to the acquisition of the items.

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 Novell and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are recognised as an expense in profit or loss during the financial period in which they are incurred.

Property, plant and equipment are depreciated so as to write off their cost or valuation net of expected residual value over their estimated useful lives on a straight-line basis. The useful lives, residual value and depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period. The depreciate rates per annum are as follows:

Leasehold improvements	20% to $33^1/_3$%
Plant and machinery	14% to 20%
Furniture, fixtures and equipment	14% to 20%

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount.

The gain or loss on disposal of an item of property, plant and equipment is the difference between the net sale proceeds and its carrying amount, and is recognised in profit or loss on disposal.

(b) Intangible assets

Intangible assets with indefinite useful lives that are acquired separately are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in note 4(c) below in respect of impairment losses on intangible assets).

(c) Impairment of assets (other than financial assets)

At the end of each Relevant Periods, Novell reviews the carrying amounts of property, plant and equipment to determine whether there is any indication that those assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have decreased.

Intangible assets with indefinite useful lives are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

If the recoverable amount (i.e. the greater of the fair value less costs of disposal and value in use) of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another HKFRS, in which case the impairment loss is treated as a revaluation decrease under that HKFRS.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another HKFRS, in which case the reversal of the impairment loss is treated as a revaluation increase under that HKFRS.

(d) Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to lessee. All other leases are classified as operating leases.

The total rentals payable under the operating leases are recognised in profit or loss on a straight-line basis over the lease term. Lease incentives received are recognised as an integrated part of the total rental expense, over the term of the lease.

The land and buildings elements of property leases are considered separately for the purposes of lease classification.

(e) Financial Instruments

(i) Financial assets

A financial asset (unless it is a trade receivable without a significant financing component) is initially measured at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that Novell commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the market place.

Debt instruments

Subsequent measurement of debt instruments depends on Novell's business model for managing the asset and the cash flow characteristics of the asset. Novell classifies its debt instruments into the following measurement category.

Amortised cost

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Financial assets at amortised cost are subsequently measured using the effective interest rate method. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain on derecognition is recognised in profit or loss.

(ii) Impairment loss on financial assets

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

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

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

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

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

Novell assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

Novell considers a financial asset to be credit-impaired when:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by Novell on terms that Novell would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

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

(iii) Financial liabilities

Novell classifies its financial liabilities, depending on the purpose for which the liabilities were incurred. Financial liabilities at amortised costs are initially measured at fair value, net of directly attributable costs incurred.

Financial liabilities at amortised cost

Financial liabilities at amortised cost including trade and other payables, borrowings are subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss.

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

(iv) Effective interest method

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

(v) Equity instruments

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

(vi) Derecognition

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

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

(f) Inventories

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Cost is calculated using the first-in first-out method. Net realisable value represents 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.

(g) Revenue recognition

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

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

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

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

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amounts receivable, discounted using the discount rate that would be reflected in a separate financing transaction between Novell and the customer at contract inception. Where the contract contains a financing component which provides a significant financing benefit to Novell, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method. For contracts where the period between the payment and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

Trading of jewellery

Revenue for trading of jewellery generally includes only one performance obligation. Novell has concluded that revenue from trading of jewellery should be recognised at the point in time when control of the products is transferred to the customer, generally when the products are delivered to and the risks of obsolescence and loss have been transferred to customer.

(h) Borrowing costs

Borrowing costs are expensed when incurred.

(i) Income taxes

Income taxes comprise current tax and deferred tax.

Current tax is based on profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the end of each Relevant Periods.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes. Except for goodwill and recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured at the tax rates appropriate to the expected manner in which the carrying amount of the asset or liability is realised or settled and that have been enacted or substantively enacted at the end of each Relevant Periods.

Income taxes are recognised in profit or loss except when they relate to items recognised in other comprehensive income in which case the taxes are also recognised in other comprehensive income or when they relate to items recognised directly in equity in which case the taxes are also recognised directly in equity.

(j) Employee benefits

Short-term employee benefits

Short term employee benefits are employee benefits (other than termination benefits that are expected to be settled wholly before twelve months after the end of the annual reporting period) in which the employees render the related services. Short term employee benefits are recognised in the year when the employee render the related service.

(k) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when Novell has a legal or constructive obligation arising as a result of a past event, which it is probable will result in an outflow of economic benefits that can be reliably estimated.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, the existence of which 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 of economic benefits is remote.

(l) Related parties

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

(i) has control or joint control over Novell;

(ii) has significant influence over Novell; or

(iii) is a member of key management personnel of Novell or Novell's parent.

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

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

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

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

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

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

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

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

(viii) The entity, or any member of a company of which it is a part, provides key management personnel services to Novell or to Novell's parent.

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

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

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

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

5. Critical accounting judgements and key sources of estimation uncertainty

In the application of Novell's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results 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.

In addition to information disclosed elsewhere in these financial statements, other key sources of estimation uncertainty that have a significant risk of resulting a material adjustment to the carrying amounts of assets and liabilities within next financial year are as follows:

(a) Useful lives, residual values and depreciation of property, plant and equipment

Novell's management determines the estimated useful lives, residual values and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. Management will increase the depreciation charge where useful lives are less than previously estimated lives, it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives; actual residual values may differ from estimated residual values. Periodic review could result in a change in depreciable lives and residual values and therefore depreciation expense in the future periods.

(b) Impairment of property, plant and equipment and intangible assets

The impairment loss of property, plant and equipment and intangible assets is recognised for the amount by which the carrying amount exceeds its recoverable amount. The recoverable amount of the assets, or, where appropriate, the cash generating unit to which they belong, is the higher of its fair value less costs of disposal and value-in-use. The recoverable amounts are determined based on value in use. Novell's management estimates future cash flows from the cash-generating units and chooses a suitable discount rate in order to calculate the present value of those cash flows.

(c) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and variable selling expenses. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of changes in customer taste and competitor actions in response to severe industry cycle. Management reassesses the estimations at the end of each Relevant Periods.

(d) Impairment of trade and other receivables

The measurement of impairment losses under HKFRS 9 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

At the end of each Relevant Periods, Novell assesses whether there has been a significant increase in credit risk for exposures since initial recognition by comparing the risk of default occurring over the expected life between the reporting date and the date of initial recognition. Novell considers reasonable and supportable information that is relevant and available without undue cost or effort for this purpose. This includes quantitative and qualitative information and also, forward-looking analysis.

6. Revenue and segment information

Revenue from sale of jewellery products are recognised at point in time when there is evidence that the control of goods has been transferred to the customer, the customer has adequate control over the goods and Novell has no unfulfilled obligations that affect customer accepting the goods. Revenue recognised during the Relevant Periods is as follows:

	2016	**2017**	**2018**
	USD	*USD*	*USD*
Revenue from contracts with customers			
– Sale of jewellery products	16,443,551	16,886,259	15,563,290

During the Relevant Periods, Novell was principally engaged in the manufacturing and sale of jewellery products. Information reported to the Novell's management, for the purpose of resources allocation and performance assessment, focuses on the operating results of Novell as a whole, as Novell's resources are integrated and no discrete operating segment historical financial information is available. Accordingly, Novell has only one business segment and no further analysis of the single segment is considered necessary.

Segment revenue and results

The following is an analysis of Novell's revenue relating to sale of jewellery products that is disaggregated by primary geographical market and recognised at point in time, during the Relevant Periods are as follows:

	2016	2017	2018
	USD	*USD*	*USD*
Primary geographical market			
The United States of America	16,443,551	16,886,259	15,563,290

Information about major customer

Revenue from the major customer, which amounted to 10% or more of the total revenue is set out below:

	2016	2017	2018
	USD	*USD*	*USD*
Customer A	8,872,543	9,892,821	8,694,438

7. Finance costs

	2016	2017	2018
	USD	*USD*	*USD*
Interest on bank borrowings	134,779	158,980	204,739
Interest expenses on other borrowings	–	–	18,674
	134,779	158,980	223,413

8. Profit before income tax

Profit before income tax is arrived at after charging:

	2016	2017	2018
	USD	*USD*	*USD*
Cost of inventories sold	13,079,877	13,361,745	12,546,968
Depreciation on property, plant and equipment	97,643	67,225	53,062
Minimum lease payments under operating lease on:			
– land and buildings	264,000	264,000	264,000
– equipment	47,562	39,441	38,173
Staff costs *(note 10)*	2,267,420	2,538,376	2,796,340

9. Income tax expense

Novell is a pass-through entity as defined under the provisions of the Internal Revenue Code in the United States of America and therefore, is not subject to federal income taxes. Novell is only subject to certain state income taxes that are nominal for the Relevant Periods. The corporate income taxes are allocated among the owners and only levied at the individual owners' level.

The amounts of income tax expense in the Historical Financial Information represent:

	2016	2017	2018
	USD	*USD*	*USD*
Tax for current year	1,500	1,125	1,875

10. Staff costs

	2016	2017	2018
	USD	*USD*	*USD*
Staff costs (including directors) comprise:			
– Salaries and allowances	2,267,420	2,538,376	2,796,340

11. Directors' emoluments and five highest paid individuals

(a) Directors' emoluments

Directors' emoluments paid to each of the directors of Novell during the Relevant Periods is as follows:

	2016	2017	2018
	USD	*USD*	*USD*
Bruce Pucciarello	223,633	228,672	225,000
Victor Novogrodzky	229,857	185,710	68,955
	453,490	414,382	293,955

(b) Five highest paid individuals

The five highest paid individuals whose emoluments were the highest in Novell for the years ended 31 December 2016, 2017 and 2018 include two, two and one directors whose emoluments is reflected in the analysis presented above, respectively. The emoluments payables to the remaining three, three and four individuals during the Relevant Periods, respectively, are as follows:

	2016	2017	2018
	USD	*USD*	*USD*
Wages, salaries and other employee benefits	362,623	344,667	404,131

12. Distribution

	2016	2017	2018
	USD	*USD*	*USD*
Cash distribution to the owners of Novell	150,000	60,000	132,000

Other than the cash distribution above, the directors of Novell do not recommend the payment of any dividend for the Relevant Periods.

13. Property, plant and equipment

	Leasehold improvements *USD*	Plant and machinery *USD*	Furniture, fixture and equipment *USD*	Total *USD*
Cost				
At 1 January 2016	960,991	916,208	768,439	2,645,638
Additions	–	9,431	11,133	20,564
At 31 December 2016 and 1 January 2017	960,991	925,639	779,572	2,666,202
Additions	–	35,600	43,662	79,262
At 31 December 2017 and 1 January 2018	960,991	961,239	823,234	2,745,464
Additions	–	34,183	6,103	40,286
At 31 December 2018	960,991	995,422	829,337	2,785,750
Depreciation				
At 1 January 2016	956,289	742,919	724,395	2,423,603
Charge for the year	2,515	73,766	21,362	97,643
At 31 December 2016 and 1 January 2017	958,804	816,685	745,757	2,521,246
Charge for the year	1,723	52,062	13,440	67,225
At 31 December 2017 and 1 January 2018	960,527	868,747	759,197	2,588,471
Charged for the year	464	34,759	17,839	53,062
At 31 December 2018	960,991	903,506	777,036	2,641,533
Carrying amounts				
At 31 December 2018	–	91,916	52,301	144,217
At 31 December 2017	464	92,492	64,037	156,993
At 31 December 2016	2,187	108,954	33,815	144,956

14. Intangible assets

	Trademark
	USD
Cost	
At 1 January 2016, 31 December 2016, 31 December 2017 and 31 December 2018	337,000
Amortisation	
At 1 January 2016, 31 December 2016, 31 December 2017 and 31 December 2018	–
Carrying amounts	
At 31 December 2018	337,000
At 31 December 2017	337,000
At 31 December 2016	337,000

As at 31 December 2016, 2017 and 2018, intangible assets of trademarks amounting to USD337,000 represent the perpetual right for the use of brand name of "Wright & Lido" which takes the form of sign, symbol, name, logo design or any combination thereof arising from the jewellery business. These trademarks are considered by the directors of Novell as having an indefinite useful life.

The directors of Novell consider cash flow projects which were prepared based on financial budgets covering respective period of trademarks and property, plant and equipment associated with the cash-generating unit of the jewellery business.

The recoverable amounts of the cash-generating-unit of the jewellery business has been determined based on a value in use calculation. The calculation uses cash flow projection based on financial budgets approved by the directors covering a five-year period having an average 10% growth rate and discount rate of 13.6% based on past performance and its expectation for market development.

15. Inventories

	2016	2017	2018
	USD	*USD*	*USD*
Raw materials	3,231,446	3,114,827	2,698,652
Work-in-progress	165,168	344,735	247,768
Finished goods	2,424,207	2,653,932	3,790,664
	5,820,821	6,113,494	6,737,084

16. Trade receivables

	2016	2017	2018
	USD	*USD*	*USD*
Trade receivables	3,014,632	3,316,168	2,871,571
Less: Provision for impairment	(45,000)	(45,000)	(45,000)
	2,969,632	3,271,168	2,826,571

Included in trade and other receivables are trade debtors (net of impairment losses) with the following ageing analysis, based on invoice dates, as of the end of each Relevant Periods.

	2016	2017	2018
	USD	*USD*	*USD*
0 – 30 days	1,046,632	1,025,180	1,187,035
31 – 60 days	530,734	555,138	438,945
61 – 90 days	1,197,072	1,300,329	689,451
Over 90 days	195,194	390,521	511,140
	2,969,632	3,271,168	2,826,571

Novell recognised impairment loss based on the accounting policy stated in Note 4(e)(ii).

Novell offers a general credit period from 30 to 120 days on sale of goods to customers while, business partners with strong financial background may be offered longer credit terms. Further details on Novell's credit policy and credit risk arising from trade debtors and other receivables are set out in note 29(a).

17. Amounts due from related parties

	2016	**2017**	**2018**
	USD	*USD*	*USD*
Amount due from a director	135,000	135,000	135,000
Amounts due from related companies	1,081,406	848,123	501,799
	1,216,406	983,123	636,799

The amounts due are unsecured, interest-free and have no fixed terms of repayment.

18. Cash and cash equivalents

	2016	**2017**	**2018**
	USD	*USD*	*USD*
Cash balances	2,000	2,000	2,000

19. Trade payables

The ageing analysis of trade payable as at the end of each Relevant Periods, based on invoice dates, is as follows:

	2016	**2017**	**2018**
	USD	*USD*	*USD*
0 – 30 days	768,720	1,025,319	681,886
31 – 60 days	591,089	321,683	337,466
61 – 90 days	88,662	113,648	283,474
Over 90 days	144,220	208,734	147,993
	1,592,691	1,669,384	1,450,819

20. Contract liabilities

	2016	2017	2018
	USD	*USD*	*USD*
Contract liabilities arising from sale of goods	–	–	17,324

For sales of goods, the deposits received by Novell on products remains as contract liabilities until such time as the production completed to date outweighs the amount received.

As at 31 December 2018, the aggregated amount of the transaction price allocated to the remaining performance obligations under Novell's existing contracts is USD17,324. This amount represents revenue expected to be recognised in the future. Novell will recognise the expected revenue when the performance obligation is completed, which is expected to occur within one year.

21. Borrowings

	2016	2017	2018
	USD	*USD*	*USD*
Bank borrowings *(note a)*	4,693,656	4,785,423	4,364,630
Other borrowings *(note b)*	–	–	606,461
	4,693,656	4,785,423	4,971,091

Notes:

(a) At 31 December 2016, 2017 and 2018, bank borrowings were secured by certain of Novell's assets, the assets of a related company of Novell and guaranteed by the owners of Novell and its related company, arranged at interest rates at 3.36%, 4.11% and 5.10% per annum respectively.

(b) At 31 December 2018, other borrowings were unsecured, interest-bearing at LIBOR plus 2.31% per annum and repayable on demand.

22. Amount due to a related party

The amount due is unsecured, interest-free and has no fixed terms of repayment.

23. Share capital

	2016	**2017**	**2018**
	USD	*USD*	*USD*
Authorised:			
1,000 shares of USD0.01 each			
At the beginning of the year and the end of the year	10	10	10
Issued and fully paid:			
100 shares of USD0.01 each			
At the beginning of the year and the end of the year	1	1	1

24. Reserves

Details of the movements of Novell's reserves for the Relevant Periods are presented in the statements of changes in equity.

Additional paid-in capital

Additional paid-in capital represents the amounts paid for shares which were in excess of the par value of USD0.01 for each share.

25. Operating lease commitments

The following aggregate minimum rentals receivable under non-cancellable operating leases are as follow:

	2016	2017	2018
	USD	*USD*	*USD*
Within one year	264,000	264,000	264,000
Over one year but within five years	2,222,000	1,958,000	1,694,000
	2,486,000	2,222,000	1,958,000

The operating lease of Novell runs from a period of 10 years.

26. Contingent liabilities

At 31 December 2016, 2017 and 2018, Novell did not have any contingent liabilities.

27. Related party transactions

Save as disclosed elsewhere in the Historical Financial Information, Novell undertook the following transactions with related company during the Relevant Periods:

		2016	2017	2018
	Note	*USD*	*USD*	*USD*
Rental expense paid to a related company	*(i)*	264,000	264,000	264,000

Note:

(i) Novell paid rental expenses to a related company relating to an office premises. The terms of the fee were determined and agreed by both parties.

28. Reconciliation of liabilities arising from financing activities

	Borrowings
	USD
Balance as at 1 January 2016	4,515,098
New bank borrowings	178,558
Total changes from financing cash flows	178,558
Other changes:	
Interest expenses	134,779
Interest paid	(134,779)
Total other changes	–
Balance as at 31 December 2016 and 1 January 2017	4,693,656
New bank borrowings	91,767
Total changes from financing cash flows	91,767
Other changes:	
Interest expenses	158,980
Interest paid	(158,980)
Total other changes	–
Balance as at 31 December 2017 and 1 January 2018	4,785,423
New other borrowings	606,461
Repayment of bank borrowings	(420,793)
Total changes from financing cash flows	185,668
Other changes:	
Interest expenses	223,413
Interest paid	(223,413)
Total other changes	–
Balance as at 31 December 2018	4,971,091

29. Financial risk management

Novell's major financial instruments include trade receivables, amounts due from related parties, cash and cash equivalents, trade payables, other payables and accruals, borrowings and amount due to a related party. Details of these financial instruments are disclosed in the respective notes. The risk associated with these financial instruments and the policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(a) Credit risk

As at the end of each Relevant Periods, Novell's maximum exposure to credit risk which may cause a financial loss to Novell due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the statements of financial position.

In order to minimise the credit risk in relation to trade receivables, credit limits and credit terms granted to customers are approved by delegated officers and follow-up action is taken to recover overdue debts. In addition, the management of Novell reviews the recoverable amount of each individual receivables at the end of each Relevant Periods to ensure that adequate impairment losses are made for irrecoverable amounts.

Trade receivables

Novell measures loss allowances for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As Novell'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 Novell's different customer bases.

Novell applies the simplified approach to provide for ECLs for trade receivables prescribed by HKFRS 9, which permits the use of the lifetime expected loss provision for trade receivables and Novell accounts for its credit risk by appropriately providing for the ECLs on a timely basis. In calculating the expected credit loss rates, Novell considers historical loss rates for trade receivables, and adjusts for forward looking macroeconomic data.

The following table provides information about Novell's exposure to credit risk and ECLs for trade receivables as at 31 December 2016, 2017 and 2018:

As at 31 December 2016

Trade receivables	Gross carrying amount *USD*	Loss allowance *USD*	Net carrying amount *USD*
Neither past due nor impaired	2,684,600	–	2,684,600
Past due less than 60 day	285,032	–	285,032
Past due more than 60 days and less than 180 days	45,000	45,000	–
	3,014,632	45,000	2,969,632

As at 31 December 2017

Trade receivables	Gross carrying amount *USD*	Loss allowance *USD*	Net carrying amount *USD*
Neither past due nor impaired	3,055,352	–	3,055,352
Past due less than 60 day	215,816	–	215,816
Past due more than 60 days and less than 180 days	45,000	45,000	–
	3,316,168	45,000	3,271,168

As at 31 December 2018

Trade receivables	Gross carrying amount *USD*	Loss allowance *USD*	Net carrying amount *USD*
Neither past due nor impaired	2,429,324	–	2,429,324
Past due less than 60 day	397,247	–	397,247
Past due more than 60 days and less than 180 days	45,000	45,000	–
	2,871,571	45,000	2,826,571

Expected loss rates are based on actual loss experience over the past few 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 Novell's view of economic conditions over the expected lives of the receivables.

There are no movement in the loss allowance account in respect of trade receivables during the Relevant Periods.

Novell's concentration of credit risk on the trade receivables as at 31 December 2016, 2017 and 2018 included five major customers accounting for 98%, 95% and 96% of the trade receivables respectively. Novell has closely monitored the recoverability of the advances to these customers and taken effective measures to ensure timely collection of outstanding balances. Novell has not obtained collateral from customers.

Novell is exposed to the concentration of geographic risk on revenue which is generated mostly from customers located in the United States. Novell has closely monitored the business performance of these customers in the United States.

Other financial assets measured at amortised costs

Other financial assets at amortised cost of Novell includes amounts due from related parties and cash and cash equivalents. Since there is no increase in credit risk, the loss allowance recognised during the Relevant Periods was therefore limited to 12-months ECL. Management considers the probability of default is low on amounts due from related parties since the counterparties are in good credit quality and no historical default noted. Novell concluded that impact of ECLs on other financial assets measured at amortised costs is insignificant as at the end of each Relevant Periods.

(b) Interest rate risk

Interest rate risk relates to the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in market interest rates. Novell is exposed to interest rate risk primarily arising from borrowings. The borrowings are arranged at variable rates which expose Novell to cash flow interest rate risk. The interest rates and repayment terms of the borrowings outstanding at the end of each Relevant Periods are disclosed in note 21.

Novell currently does not have an interest rate hedging policy. However, management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

The following table illustrates the sensitivity of the profit/(loss) for the Relevant Periods and retained profits to a change in interest rates of +100 basis point and -100 basis point with effect from the beginning of the year. The calculations are based on Novell's bank borrowings held at the end of each Relevant Periods. All other variables are held constant.

	2016	**2017**	**2018**
	USD	*USD*	*USD*
If interest rates were 100 basis point higher			
Net profit/(loss) for the year and retained profits would (decrease)/increase by	(46,937)	(47,854)	49,711
If interest rates were 100 basis point lower			
Net profit/(loss) for the period/year and retained profits would increase/(decrease) by	46,937	47,854	(49,711)

The policies to manage interest rate risk have been followed by Novell and are considered to be effective.

(c) Foreign currency risk

Currency risk refers to the risk that the fair values or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Novell mainly operates and invests in the United States with all the transactions denominated and settled in USD and hence, Novell is not subject to any foreign currency risk.

The measures to manage foreign currency risk have been followed by Novell and are considered to be effective.

(d) Liquidity risk

Liquidity risk related to the risk that Novell will not able to meet its obligation associated with its financial liabilities. In the management of the liquidity risk, Novell monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance Novell's operations and mitigate the effects of fluctuations in cash flows in the short and long term. Management monitors the utilisation of borrowings and ensures compliance with loan covenants.

The liquidity policies have been followed by Novell and are considered to have been effective in managing liquidity risk. The following tables show the remaining contractual maturities at the reporting date of Novell's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the reporting date) and the earliest date Novell can be required to pay. The table includes both interest and principal cash flows.

	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand
	USD	*USD*	*USD*
As at 31 December 2016			
Trade payables	1,592,691	1,592,691	1,592,691
Other payables and accruals	135,726	135,726	135,726
Borrowings	4,693,656	4,693,656	4,693,656
Amount due to a related party	81,220	81,220	81,220
	6,503,293	6,503,293	6,503,293

	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand
	USD	*USD*	*USD*
As at 31 December 2017			
Trade payables	1,669,384	1,669,384	1,669,384
Other payables and accruals	103,746	103,746	103,746
Borrowings	4,785,423	4,785,423	4,785,423
Amount due to a related party	58,507	58,507	58,507
	6,617,060	6,617,060	6,617,060

	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand
	USD	*USD*	*USD*
As at 31 December 2018			
Trade payables	1,450,819	1,450,819	1,450,819
Other payables and accruals	86,154	86,154	86,154
Borrowings	4,971,091	4,971,091	4,971,091
Amount due to a related party	195,610	195,610	195,610
	6,703,674	6,703,674	6,703,674

30. Summary of financial assets and financial liabilities by category

The following table shows the carrying amount of financial assets and liabilities as defined in note 4(e).

	2016	2017	2018
	USD	*USD*	*USD*
Financial assets			
Amortised costs:			
– Trade receivables	2,969,632	3,271,168	2,826,571
– Amounts due from related parties	1,216,406	983,123	636,799
– Cash and cash equivalents	2,000	2,000	2,000
	4,188,038	4,256,291	3,465,370
Financial liabilities			
Financial liabilities measured at amortised cost:			
– Trade payables	1,592,691	1,669,384	1,450,819
– Other payables and accruals	135,726	103,746	86,154
– Borrowings	4,693,656	4,785,423	4,971,091
– Amount due to a related party	81,220	58,507	195,610
	6,503,293	6,617,060	6,703,674

The directors of Novell consider that the carrying amounts of financial assets and financial liabilities carried at amortised cost approximate their fair values.

31. Capital risk management

Novell's objective when managing capital are to safeguard Novell's ability to continue as a going concern in order to provide returns for shareholders and provide benefits for other stakeholders and to maintain a strong capital base to support the development of the investment activities of Novell.

In order to maintain or adjust the capital structure, Novell may issue new shares or apply for long-term loans from banks.

The following is the text of a report, received from the Company's reporting accountants, BDO Limited, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

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

Introduction

We were engaged to report on the historical financial information of NP Enterprises, LLC ("NP") set out on pages II-44 to II-71, which comprises the statements of financial position as at 31 December 2016, 2017 and 2018, and the statements of profit or loss and other comprehensive income, the statements of changes in equity and the statements of cash flows for the years ended 31 December 2016, 2017 and 2018 (the "Relevant Periods") and a summary of significant accounting policies and other explanatory information (together the "Historical Financial Information"). The Historical Financial Information set out on pages II-44 to II-71 forms an integral part of this report, which has been prepared for inclusion in the circular of Continental Holdings Limited (the "Company") dated 27 June 2019 in connection with the proposed acquisition of 85% equity interests in NP by the Company.

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 3 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 conduct work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" ("HKSIR 200") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Based on our work done, we express an opinion on the Historical Financial Information and report our opinion to you. HKSIR 200 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. Because of the matter described in the "Basis for disclaimer of opinion" paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for our opinion on the Historical Financial Information.

Basis for disclaimer of opinion

We were appointed as reporting accountants of the Company after 31 December 2017, and thus we did not observe the counting of physical inventories as at 1 January 2016, 31 December 2016 and 31 December 2017. We were unable to satisfy ourselves by alternative means concerning the quantities of inventories held by NP as at 1 January 2016, 31 December 2016 and 31 December 2017. Accordingly, we are unable to obtain sufficient appropriate evidence to satisfy ourselves as to whether the carrying amounts of the inventories as at 1 January 2016, 31 December 2016 and 31 December 2017 were fairly stated. Since the carrying amounts of the inventories of USD544,053, USD525,288 and USD450,195 as at 1 January 2016, 31 December 2016 and 2017 respectively affect the determination of cost of sales of USD2,241,544, USD2,030,895 and USD1,726,455 for the years ended 31 December 2016, 2017 and 2018, we are unable to determine whether any adjustments in the statements of profit or loss and other comprehensive income for the years ended 31 December 2016, 2017 and 2018 were necessary.

Any adjustments found to be necessary to the carrying amounts of the inventories as at 1 January 2016, 31 December 2016 and 31 December 2017 would have a consequential effect on NP's profit or loss for the years ended 31 December 2016, 2017 and 2018, the related elements making up the statements of cash flows, the statements of changes in equity, and related disclosures in the notes to the Historical Financial Information.

Disclaimer of opinion

Because of the significance of the matter described in the "Basis for disclaimer of opinion" paragraph, we have not been able to obtain sufficient appropriate evidence to provide a basis for an opinion. Accordingly, we do not express an opinion on the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page II-44 have been made.

BDO Limited
Certified Public Accountants
Yu Tsui Fong
Practising Certificate Number P05440

Hong Kong
27 June 2019

B. I. HISTORICAL FINANCIAL INFORMATION OF NP

The following is the Historical Financial Information of NP prepared by the directors of the Company and forms an integral part of this accountants' report.

The financial statements of NP for the Relevant Periods (the "Underlying Financial Statements"), on which the Historical Financial Information of NP is based, were audited by BDO Limited in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

The Historical Financial Information is presented in US Dollars ("USD").

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Year ended 31 December		
		2016	**2017**	**2018**
	Notes	*USD*	*USD*	*USD*
Revenue	*6*	2,822,917	2,549,829	2,210,996
Cost of sales		(2,241,544)	(2,030,895)	(1,726,455)
Gross profit		581,373	518,934	484,541
Selling and distribution costs		(67,347)	(39,299)	(22,101)
Administrative expenses		(431,973)	(319,324)	(259,950)
Profit before income tax	*7*	82,053	160,311	202,490
Income tax expense	*8*	–	–	–
Profit and total comprehensive income for the year		82,053	160,311	202,490

STATEMENTS OF FINANCIAL POSITION

		As at 31 December		
		2016	**2017**	**2018**
	Notes	*USD*	*USD*	*USD*
Non-current assets				
Property, plant and equipment	12	8,050	2,497	–
Intangible assets	13	466,576	466,576	466,576
Total non-current assets		474,626	469,073	466,576
Current assets				
Inventories	14	525,288	450,195	414,199
Trade receivables	15	168,875	190,493	114,125
Prepayments and deposits		10,956	538	341
Cash and cash equivalents	16	23,037	6,258	7,206
Total current assets		728,156	647,484	535,871
Current liabilities				
Other payables and accruals		7,986	–	–
Amount due to a related party	17	908,225	669,675	397,075
		916,211	669,675	397,075
Net current (liabilities)/assets		(188,055)	(22,191)	138,796
Total assets less current liabilities		286,571	446,882	605,372
NET ASSETS		286,571	446,882	605,372
EQUITY				
Contributed capital	18	–	–	–
Retained profits		286,571	446,882	605,372
TOTAL EQUITY		286,571	446,882	605,372

STATEMENTS OF CHANGES IN EQUITY

	Contributed capital *USD*	Retained profits *USD*	Total equity *USD*
Balance at 1 January 2016	–	204,518	204,518
Profit and total comprehensive income for the year	–	82,053	82,053
Balance at 31 December 2016 and 1 January 2017	–	286,571	286,571
Profit and total comprehensive income for the year	–	160,311	160,311
Balance at 31 December 2017 and 1 January 2018	–	446,882	446,882
Distribution *(note 11)*	–	(44,000)	(44,000)
Transaction with owners	–	(44,000)	(44,000)
Profit and total comprehensive income for the year	–	202,490	202,490
Balance at 31 December 2018	–	605,372	605,372

STATEMENTS OF CASH FLOWS

	Year ended 31 December		
	2016	2017	2018
	USD	*USD*	*USD*
Cash flows from operating activities			
Profit before income tax	82,053	160,311	202,490
Adjustments for:			
Amortisation of intangible assets	20,000	–	–
Depreciation of property, plant and equipment	6,100	5,553	2,497
Operating profits before working capital changes	108,153	165,864	204,987
Decrease in inventories	18,765	75,093	35,996
Decrease/(Increase) in trade receivables	18,777	(21,618)	76,368
Decrease in prepayment and deposits	3,204	10,418	197
Decrease in trade payables	(1,267)	–	–
Decrease in other payables and accruals	(4,658)	(7,986)	–
Decrease in amount due to a related party	(129,008)	(238,550)	(272,600)
Net cash generated from/(used in) operating activities	13,966	(16,779)	44,948
Cash flows from financing activities			
Distribution paid	–	–	(44,000)
Net cash used in financing activities	–	–	(44,000)
Net increase/(decrease) in cash and cash equivalents	13,966	(16,779)	948
Cash and cash equivalents at the beginning of year	9,071	23,037	6,258
Cash and cash equivalents at the end of year	23,037	6,258	7,206

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION OF NP

1. General information

NP Enterprises, LLC ("NP") is principally engaged in manufacturing and selling of jewelry. NP is a limited liability company incorporated in the United States. The address of its principal place of business in the United States is 2100 Felver Court Rahway, New Jersey 07065.

2. Adoption of Hong Kong Financial Reporting Standards ("HKFRSs")

The following new or revised HKFRSs, potentially relevant to the Historical Financial Information, have been issued, but are not yet effective and have not been early adopted by NP.

Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to HKFRS 3, Business Combinations[1]
Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to HKAS 12, Income Taxes[1]
Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to HKAS 23, Borrowing Costs[1]
Amendments to HKFRS 3	Definition of a Business[2]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to HKAS 1 and HKAS 8	Definition of Material[2]
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments[1]

[1] *Effective for annual periods beginning on or after 1 January 2019*
[2] *Effective for annual periods beginning on or after 1 January 2020*

The directors of NP have also performed an assessment on those new standards, amendments and interpretations, and have concluded on a preliminary basis that these new standards and amendments would not have a significant impact on NP's financial information in subsequent years.

3. Basis of preparation and presentation

(a) Basis of preparation

The principle accounting policies applied in the preparation of the Historical Financial Information which are in accordance with the Hong Kong Financial Reporting Standards ("HKFRS") issued by the HKICPA are set out in Note 4. The preparation of Historical Financial Information in conformity with HKFRSs requires the use of certain critical accounting estimates and key sources of estimation uncertainty. It also requires management of NP to exercise its judgement in the process of applying NP's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Historical Financial Information are disclosed in Note 5.

All relevant standards, amendments and interpretations to the existing standard that are effective during the Relevant Periods have been adopted by NP consistently throughout the Relevant Periods. New standards, amendments to standards and interpretations which have been issued but are not yet effective during the Relevant Periods is set out in Note 2.

(b) Basis of measurement

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

(c) Functional and presentation currency

The Historical Financial Information are presented in USD, which is the same as the functional currency of NP.

4. Significant accounting policies

(a) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any.

The cost of property, plant and equipment includes its purchase price and the costs directly attributable to the acquisition of the items.

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 NP and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are recognised as an expense in profit or loss during the financial period in which they are incurred.

Property, plant and equipment are depreciated so as to write off their cost or valuation net of expected residual value over their estimated useful lives on a straight-line basis. The useful lives, residual value and depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period. The depreciate rates per annum are as follows:

Plant and machinery	14% to 20%
Furniture, fixtures and equipment	14% to 20%

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount.

The gain or loss on disposal of an item of property, plant and equipment is the difference between the net sale proceeds and its carrying amount, and is recognised in profit or loss on disposal.

(b) Intangible assets

Intangible assets with finite useful lives acquired separately are initially recognised at cost. Subsequently, intangible assets with finite useful lives are carried at cost less accumulated amortisation and accumulated impairment losses (see accordingly policy in note 4(c) in respect of impairment loss on intangible assets below). Amortisation is provided on a straight-line basis over their useful lives of 5 years.

Intangible assets with indefinite useful lives that are acquired separately are carried at cost less any subsequent accumulated impairment loss (see accordingly policy in note 4(c) in respect of impairment loss on intangible assets below).

(c) Impairment of assets (other than financial assets)

At the end of each Relevant Periods, NP reviews the carrying amounts of the following assets to determine whether there is any indication that those assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment; and
- intangible assets with finite useful lives

Intangible assets with indefinite useful lives are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

If the recoverable amount (i.e. the greater of the fair value less costs of disposal and value in use) of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another HKFRS, in which case the impairment loss is treated as a revaluation decrease under that HKFRS.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another HKFRS, in which case the reversal of the impairment loss is treated as a revaluation increase under that HKFRS.

(d) Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to lessee. All other leases are classified as operating leases.

The total rentals payable under the operating leases are recognised in profit or loss on a straight-line basis over the lease term. Lease incentives received are recognised as an integrated part of the total rental expense, over the term of the lease.

The land and buildings elements of property leases are considered separately for the purposes of lease classification.

(e) Financial Instruments

(i) Financial assets

A financial asset (unless it is a trade receivable without a significant financing component) is initially measured at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that NP commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the market place.

Debt instruments

Subsequent measurement of debt instruments depends on NP's business model for managing the asset and the cash flow characteristics of the asset. NP classifies its debt instruments into the following measurement category:

Amortised cost

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Financial assets at amortised cost are subsequently measured using the effective interest rate method. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain on derecognition is recognised in profit or loss.

(ii) Impairment loss on financial assets

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

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

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

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

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

NP assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

NP considers a financial asset to be credit-impaired when:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by NP on terms that NP would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

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

(iii) Financial liabilities

NP classifies its financial liabilities, depending on the purpose for which the liabilities were incurred. Financial liabilities at amortised costs are initially measured at fair value, net of directly attributable costs incurred.

Financial liabilities at amortised cost

Financial liabilities at amortised cost including trade and other payables are subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss.

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

(iv) Effective interest method

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

(v) Equity instruments

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

(vi) Derecognition

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

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

(f) Inventories

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Cost is calculated using the first-in first-out method. Net realisable value represents 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.

(g) Revenue recognition

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

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

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

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

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amounts receivable, discounted using the discount rate that would be reflected in a separate financing transaction between NP and the customer at contract inception. Where the contract contains a financing component which provides a significant financing benefit to NP, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method. For contracts where the period between the payment and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

Trading of jewellery

Revenue for trading of jewellery generally includes only one performance obligation. NP has concluded that revenue from trading of jewellery should be recognised at the point in time when control of the products is transferred to the customer, generally when the products are delivered to and the risks of obsolescence and loss have been transferred to customer.

(h) Income taxes

Income taxes comprise current tax and deferred tax.

Current tax is based on profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the end of each Relevant Periods.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes. Except for goodwill and recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured at the tax rates appropriate to the expected manner in which the carrying amount of the asset or liability is realised or settled and that have been enacted or substantively enacted at the end of each Relevant Periods.

Income taxes are recognised in profit or loss except when they relate to items recognised in other comprehensive income in which case the taxes are also recognised in other comprehensive income or when they relate to items recognised directly in equity in which case the taxes are also recognised directly in equity.

(i) Employee benefits

Short-term employee benefits

Short term employee benefits are employee benefits (other than termination benefits that are expected to be settled wholly before twelve months after the end of the annual reporting period) in which the employees render the related services. Short term employee benefits are recognised in the year when the employee render the related service.

(j) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when NP has a legal or constructive obligation arising as a result of a past event, which it is probable will result in an outflow of economic benefits that can be reliably estimated.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, the existence of which 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 of economic benefits is remote.

(k) Related parties

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

(i) has control or joint control over NP;

(ii) has significant influence over NP; or

(iii) is a member of key management personnel of NP or NP's parent.

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

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

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

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

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

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

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

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

(viii) The entity, or any member of a company of which it is a part, provides key management personnel services to NP or to NP's parent.

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

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

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

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

5. Critical accounting judgements and key sources of estimation uncertainty

In the application of NP's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results 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.

In addition to information disclosed elsewhere in these financial statements, other key sources of estimation uncertainty that have a significant risk of resulting a material adjustment to the carrying amounts of assets and liabilities within next financial year are as follows:

(a) Useful lives, residual values and depreciation of property, plant and equipment

NP's management determines the estimated useful lives, residual values and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. Management will increase the depreciation charge where useful lives are less than previously estimated lives, it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives; actual residual values may differ from estimated residual values. Periodic review could result in a change in depreciable lives and residual values and therefore depreciation expense in the future periods.

(b) Impairment of property, plant and equipment and intangible assets

The impairment loss of property, plant and equipment and intangible assets is recognised for the amount by which the carrying amount exceeds its recoverable amount. The recoverable amount of the assets, or, where appropriate, the cash generating unit to which they belong, is the higher of its fair value less costs of disposal and value-in-use. The recoverable amounts are determined based on value in use. NP's management estimates future cash flows from the cash-generating units and chooses a suitable discount rate in order to calculate the present value of those cash flows.

(c) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and variable selling expenses. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of changes in customer taste and competitor actions in response to severe industry cycle. Management reassesses the estimations at the end of each Relevant Periods.

(d) Impairment of trade and other receivables

The measurement of impairment losses under HKFRS 9 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

At the end of each Relevant Periods, NP assesses whether there has been a significant increase in credit risk for exposures since initial recognition by comparing the risk of default occurring over the expected life between the reporting date and the date of initial recognition. NP considers reasonable and supportable information that is relevant and available without undue cost or effort for this purpose. This includes quantitative and qualitative information and also, forward-looking analysis.

6. Revenue and segment information

Revenue from sale of jewellery products are recognised at point in time when there is evidence that the control of goods has been transferred to the customer, the customer has adequate control over the goods and NP has no unfulfilled obligations that affect customer accepting the goods. Revenue recognised during the Relevant Periods is as follows:

	2016	**2017**	**2018**
	USD	*USD*	*USD*
Revenue from contracts with customers			
– Sale of jewellery products	2,822,917	2,549,829	2,210,996

During the Relevant Periods, NP was principally engaged in the manufacturing and sale of jewellery products. Information reported to the NP's management, for the purpose of resources allocation and performance assessment, focuses on the operating results of NP as a whole, as NP's resources are integrated and no discrete operating segment historical financial information is available. Accordingly, NP has only one business segment and no further analysis of the single segment is considered necessary.

Segment revenue and results

The following is an analysis of NP's revenue relating to sale of jewellery products that is disaggregated by primary geographical market and recognised at point in time, during the Relevant Periods are as follows:

	2016	**2017**	**2018**
	USD	*USD*	*USD*
Primary geographical market			
The United States of America	2,822,917	2,549,829	2,210,996

Information about major customer

Revenue from the major customer, which amounted to 10% or more of the total revenue is set out below:

	2016	**2017**	**2018**
	USD	*USD*	*USD*
Customer A	319,365	306,259	351,171

7. Profit before income tax

Profit before income tax is arrived at after charging:

	2016	**2017**	**2018**
	USD	*USD*	*USD*
Cost of inventories sold	2,241,544	2,030,895	1,726,455
Amortisation on intangible assets	20,000	–	–
Depreciation on property, plant and equipment	6,100	5,553	2,497
Staff costs *(note 9)*	162,153	99,078	68,723

8. Income tax expense

NP is a pass-through entity as defined under the provisions of the Internal Revenue Code in the United States of America and therefore, is not subject to federal income taxes. The taxes are taxed and only levied at the individual owners' level.

9. Staff costs

	2016	**2017**	**2018**
	USD	*USD*	*USD*
Staff costs (including directors) comprise:			
– Salaries and allowances	162,153	99,078	68,723

10. Directors' emoluments

(a) Directors' emoluments

The directors of NP have not received or will not receive any fees or other emoluments in respect of their services to NP during the Relevant Periods.

(b) Five highest paid individuals

The five highest paid individuals whose emoluments were the highest in NP for the Relevant Periods include only employees. The emoluments payables to the three, three and four individuals during the Relevant Periods, respectively, are as follows:

	2016	**2017**	**2018**
	USD	*USD*	*USD*
Wages, salaries and other employee benefits	162,153	99,078	68,723

11. Distributions

	2016	2017	2018
	USD	*USD*	*USD*
Distributions to the owners	–	–	44,000

12. Property, plant and equipment

	Plant and machinery	Furniture, fixture and equipment	Total
	USD	*USD*	*USD*
Cost			
At 1 January 2016, 31 December 2016, 31 December 2017 and 31 December 2018	25,000	5,500	30,500
Depreciation			
At 1 January 2016	12,500	3,850	16,350
Charge for the year	5,000	1,100	6,100
At 31 December 2016 and 1 January 2017	17,500	4,950	22,450
Charge for the year	5,003	550	5,553
At 31 December 2017 and 1 January 2018	22,503	5,500	28,003
Charged for the year	2,497	–	2,497
At 31 December 2018	25,000	5,500	30,500
Carrying amounts			
At 31 December 2018	–	–	–
At 31 December 2017	2,497	–	2,497
At 31 December 2016	7,500	550	8,050

13. Intangible assets

	Customer list	Trademark	Total
	USD	*USD*	*USD*
Cost			
At 1 January 2016, 31 December 2016, 31 December 2017 and 31 December 2018	100,000	466,576	566,576
Amortisation			
At 1 January 2016	80,000	–	80,000
Charge for the year	20,000	–	20,000
At 31 December 2016, 31 December 2017 and 31 December 2018	100,000	–	100,000
Carrying amounts			
At 31 December 2018	–	466,576	466,576
At 31 December 2017	–	466,576	466,576
At 31 December 2016	–	466,576	466,576

As at 31 December 2016, 2017 and 2018, intangible assets of trademarks amounting to USD466,576 represent the perpetual right for the use of brand name of "Lieberfarb" which takes the form of sign, symbol, name, logo design or any combination thereof arising from the jewellery business. These trademarks are considered by the directors of NP as having an indefinite useful life.

The directors of NP consider cash flow projects which were prepared based on financial budgets covering respective period of trademarks and property, plant and equipment associated with the cash-generating unit of the jewellery business.

The recoverable amounts of the cash-generating-unit of the jewellery business has been determined based on a value in use calculation. The calculation uses cash flow projection based on financial budgets approved by the directors covering a five-year period having an average 5% growth rate and discount rate of 13.6% based on past performance and its expectation for market development.

14. Inventories

	2016	2017	2018
	USD	*USD*	*USD*
Finished goods	525,288	450,195	414,199

15. Trade receivables

	2016	2017	2018
	USD	*USD*	*USD*
Trade receivables	168,875	190,493	114,125

Included in trade and other receivables are trade debtors (net of impairment losses) with the following ageing analysis, based on invoice dates, as of the end of each Relevant Periods.

	2016	2017	2018
	USD	*USD*	*USD*
0-30 days	115,757	112,305	95,234
31 – 60 days	38,859	64,401	11,037
61 – 90 days	11,582	5,665	4,583
Over 90 days	2,677	8,122	3,271
	168,875	190,493	114,125

NP recognised impairment loss based on the accounting policy stated in Note 4(e)(ii).

NP offers a general credit period from 30 to 90 days on sale of goods to customers while, business partners with strong financial background may be offered longer credit terms. Further details on NP's credit policy and credit risk arising from trade debtors and other receivables are set out in note 21(a).

16. Cash and cash equivalents

	2016	2017	2018
	USD	*USD*	*USD*
Cash and bank balance	23,037	6,258	7,206

17. Amount due to a related party

The amount due is unsecured, interest-free and has no fixed terms of repayment.

18. Contributed capital

NP is a limited liability company in a form of partnership. There is no contributed capital as required by law in the relevant jurisdiction.

19. Contingent liabilities

At 31 December 2016, 2017 and 2018, NP did not have any contingent liabilities.

20. Related party transactions

Save as disclosed elsewhere in the Historical Financial Information, NP did not enter other material related party transactions during the Relevant Periods.

21. Financial risk management

NP's major financial instruments include trade receivables, cash and cash equivalents, other payables and accruals and amount due to a related company. Details of these financial instruments are disclosed in the respective notes. The risk associated with these financial instruments and the policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(a) Credit risk

As at the end of each Relevant Periods, NP's maximum exposure to credit risk which may cause a financial loss to NP due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the statements of financial position.

In order to minimise the credit risk in relation to trade receivables, credit limits and credit terms granted to customers are approved by delegated officers and follow-up action is taken to recover overdue debts. In addition, the management of NP reviews the recoverable amount of each individual receivables at the end of each Relevant Periods to ensure that adequate impairment losses are made for irrecoverable amounts.

Trade receivables

NP measures loss allowances for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As NP'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 NP's different customer bases.

NP applies the simplified approach to provide for ECLs for trade receivables prescribed by HKFRS 9, which permits the use of the lifetime expected loss provision for trade receivables and NP accounts for its credit risk by appropriately providing for the ECLs on a timely basis. In calculating the expected credit loss rates, NP considers historical loss rates for trade receivables, and adjusts for forward looking macroeconomic data.

The following table provides information about NP's exposure to credit risk and ECLs for trade receivables as at 31 December 2016, 2017 and 2018:

As at 31 December 2016

Trade receivables	**Gross carrying amount** *USD*	**Loss allowance** *USD*	**Net carrying amount** *USD*
Neither past due nor impaired	103,125	–	103,125
Past due less than 60 days	46,742	–	46,742
Past due more than 60 days and less than 180 days	19,008	–	19,008
	168,875	–	168,875

As at 31 December 2017

Trade receivables	Gross carrying amount *USD*	Loss allowance *USD*	Net carrying amount *USD*
Neither past due nor impaired	144,616	–	144,616
Past due less than 60 days	40,645	–	40,645
Past due more than 60 days and less than 180 days	5,232	–	5,232
	190,493	–	190,493

As at 31 December 2018

Trade receivables	Gross carrying amount *USD*	Loss allowance *USD*	Net carrying amount *USD*
Neither past due nor impaired	96,535	–	96,535
Past due less than 60 days	14,096	–	14,096
Past due more than 60 days and less than 180 days	3,494	–	3,494
	114,125	–	114,125

Expected loss rates are based on actual loss experience over the past few 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 NP's view of economic conditions over the expected lives of the receivables.

There are no movement in the loss allowance account in respect of trade receivables during the Relevant Periods:

NP's concentration of credit risk on the trade receivables as at 31 December 2016, 2017 and 2018 included five major customers accounting for 34%, 57% and 53% of the trade receivables respectively. NP has closely monitored the recoverability of the advances to these customers and taken effective measures to ensure timely collection of outstanding balances. NP has not obtained collateral from customers.

NP is exposed to the concentration of geographic risk on revenue which is generated mostly from customers located in the United States. NP has closely monitored the business performance of these customers in the United States.

Other financial assets measured at amortised costs

Other financial assets at amortised cost of NP includes cash and bank balances. Management considers the probability of default is low on bank balances since they are placed at the financial institutions with good credit rating.

(b) Interest rate risk

Interest rate risk relates to the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in market interest rates. NP currently does not have an interest rate hedging policy. However, management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

NP does not have significant interest-bearing financial assets and financial liabilities. Hence, the exposure to interest rate risk is limited.

(c) Foreign currency risk

Currency risk refers to the risk that the fair values or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

NP mainly operates and invests in the United States with all of the transactions denominated and settled in USD. Hence, the exposure to foreign currency risk is limited.

(d) Liquidity risk

Liquidity risk related to the risk that NP will not able to meet its obligation associated with its financial liabilities. In the management of the liquidity risk, NP monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance NP's operations and mitigate the effects of fluctuations in cash flows in the short and long term.

The liquidity policies have been followed by NP since prior years and are considered to have been effective in managing liquidity risk. The following tables show the remaining contractual maturities at the reporting date of NP's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the reporting date) and the earliest date NP can be required to pay. The table includes both interest and principal cash flows.

	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand
	USD	*USD*	*USD*
As at 31 December 2016			
Other payables and accruals	7,986	7,986	7,986
Amount due to a related party	908,225	908,225	908,225
	916,211	916,211	916,211

	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand
	USD	*USD*	*USD*
As at 31 December 2017			
Amount due to a related party	669,675	669,675	669,675

	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand
	USD	*USD*	*USD*
As at 31 December 2018			
Amount due to a related party	397,075	397,075	397,075

22. Summary of financial assets and financial liabilities by category

The following table shows the carrying amount of financial assets and liabilities as defined in note 4(e).

	2016	**2017**	**2018**
	USD	*USD*	*USD*
Financial assets			
Amortised costs:			
– Trade receivables	168,875	190,493	114,125
– Cash and cash equivalents	23,037	6,258	7,206
	191,912	196,751	121,331
Financial liabilities			
Financial liabilities measured at amortised cost:			
– Other payables and accruals	7,986	–	–
– Amount due to a related party	908,225	669,675	397,075
	916,211	669,675	397,075

The directors of NP consider that the carrying amounts of financial assets and financial liabilities carried at amortised cost approximate their fair values.

23. Capital risk management

NP's objective when managing capital are to safeguard NP's ability to continue as a going concern in order to provide returns for shareholders and provide benefits for other stakeholders and to maintain a strong capital base to support the development of the investment activities of NP.

In order to maintain or adjust the capital structure, NP may issue new shares or apply for long-term loans from banks.

C. MANAGEMENT DISCUSSION AND ANALYSIS OF THE ACQUIRED COMPANIES

Set out below is the management discussion and analysis of the Acquired Companies for the years ended 31 December 2016, 2017 and 2018.

Business Review

The Acquired Companies were incorporated in New Jersey, USA. They are principally engaged in the manufacturing and trading of gold and platinum wedding bands in the USA.

As a core and strategic jewelry manufacturer, Novell Enterprises, Inc. is both an enduring-brand name and a cutting-edge operations developer with thirty-three years of experience adapting to and pioneering new markets. To clinch its success, Novell has coordinated and developed unequalled online integrations along with drop-ship capabilities for some of the largest retailers in the USA.

Novell will continue to develop its own technology, setting higher benchmarks for speed of delivery and quality of product. Now partnered with the Group, Novell can offer retailers a multi-channel supply system where the supplier monitors the market for style and price, influencing customers in an ever-changing retail environment. With our dynamic online and in-store presence, the Novell brand is poised to become one of the crown jewels of the Group.

Financial Review

Immediately before the acquisition, the Acquired Companies is 100 % owned by the Sellers. Upon Completion taking place, the Acquired Companies will be owned as to 85% and 15% by the Buyer and Seller I respectively.

I. Novell Enterprises Inc. ("Novell")

Revenue

The revenue of Novell in each of the financial years ended 31 December 2016, 2017 and 2018 were US$16,443,551, US$16,886,259 and US$15,563,290 respectively.

Decreased in revenue of Novell in year 2018 when compared with that of year 2017 was primarily due to highly competitive marketplace among the jewellery industry.

Gross Profits and Gross Profit Margin

Novell recorded gross profit of US$3,363,674, US$3,524,514 and US$3,016,322 in each of the years ended 31 December 2016, 2017 and 2018, with steady gross profit margins of approximately 20.46 %, 20.87% and 19.38% respectively. The decrease in gross profit in year 2018 was in line with the decrease in revenue during the year.

Selling and Distribution expenses

Selling and distribution expenses comprised mainly staff commissions, travelling as well as advertising and promotion expenses.

These expenses for Novell in each of the years ended 31 December 2016, 2017 and 2018 were US$558,080, US$585,655 and US$575,643 respectively.

Administrative expenses

The administrative expenses of Novell comprised mainly (i) staff cost; (ii) depreciation of plant and equipment; and (iii) other expenses associated with Novell's general administrative activities. These expenses were US$2,408,000, US$2,462,343 and US$2,356,954, respectively for each of the years ended 31 December 2016, 2017 and 2018. The slightly decrease in year 2018 was mainly as a result of continual evaluation and controlling of expenditures by the management.

Finance cost

Finance cost are borrowing costs arise from interest on bank borrowings and other borrowings. These expenses were US$134,779, US$158,980 and US$223,413, respectively for each of the years ended 31 December 2016, 2017 and 2018. The increase in finance cost for the year 2018 was primarily attributable to the increase in the amount of borrowings and the increase of effective interest rate when compared to the year 2017.

Profits/(loss) for the year

As a result of the foregoing, Novell recorded profit of US$261,315 and US$316,411 for the years ended 31 December 2016 and 2017 respectively while recorded loss of US$141,563 for the year ended 31 December 2018 due to decrease in revenue.

Liquidity, Financial Resources and Gearing

The gearing ratios of Novell were approximately 53.42%, 52.39%, and 54.95% as at 31 December 2016, 2017 and 2018 respectively. The gearing ratio of the acquired companies is calculated on net debt divided by total equity plus net debt. Net debt is calculated as the sum of bank and other borrowings less cash and cash equivalents.

All of the borrowings were bank borrowings as at 31 December 2016 and 2017 amounted to US$4,693,656 and US$4,785,423 respectively. As at 31 December 2018, the borrowings comprised of bank borrowings amounted to US$4,364,630 and other borrowings amounted to US$606,461.

Undrawn banking facilities was US$1,306,344, US$1,214,577 and US$1,635,370 as at 31 December 2016, 2017 and 2018 respectively, which, in the opinion of the director, should be sufficient for Novell's working capital requirements.

The cash and cash equivalents of Novell were US$2,000, US$2,000 and US$2,000 as at 31 December 2016, 2017 and 2018 respectively.

The total equity of Novell were US$4,091,143, US$4,347,554 and US$4,073,991 as at 31 December 2016, 2017 and 2018 respectively.

Contingent Liabilities

As at 31 December 2016, 2017 and 2018, Novell did not have any significant contingent liability.

Capital Commitments

As at 31 December 2016, 2017 and 2018, Novell did not have any capital commitments.

Charge or Pledge of Assets and Capital Structure

As at 31 December 2016, 2017 and 2018, Novell pledged certain of its assets (mainly inventories and trade receivables) as collateral to a bank to secure a general banking facility up to US$6,000,000. The bank borrowings were also guaranteed by its owners and a related company.

The bank borrowings were denominated in USD and interest rate per annum arranged at 3.36%, 4.11% and 5.10% respectively as at 31 December 2016, 2017 and 2018.

Foreign Currency Risks

All transactions were denominated in USD, which is its functional currency. As such, Novell has limited exposure to any significant foreign currency exchange risks.

Material Investments

As at 31 December 2016, 2017 and 2018, there was no significant investment held by Novell.

Employees and Remuneration Policy

As at 31 December 2018, Novell employed 59 employees. Novell's staff cost were approximately US$2,267,420, US$2,538,376 and US$2,796,340 respectively for each of the years ended 31 December 2016, 2017 and 2018. Employee remuneration was determined by reference to market terms and the performance, qualification and experience of individual employee.

Material Acquisitions and Disposals of Subsidiaries, Associates and Joint Ventures

There were no material acquisitions or disposal of subsidiaries, associates and joint ventures for the three years ended 31 December 2016, 2017 and 2018. Novell had no future plans for material acquisitions or disposals of subsidiaries, associates and joint ventures.

II. NP Enterprises, LLC ("NP")

Revenue

The revenue of NP in each of the financial years ended 31 December 2016, 2017 and 2018 were US$2,822,917, US$2,549,829 and US$2,210,996 respectively.

The decrease in revenue of the acquired companies in year 2018 when compared with that of year 2017 was primarily due to highly competitive marketplace among the jewellery industry.

Gross Profits and Gross Profit Margin

NP recorded gross profit of US$581,373, US$518,934 and US$484,541 in each of the years ended 31 December 2016, 2017 and 2018, with steady gross profit margins of approximately 20.59%, 20.35% and 21.92% respectively.

Selling and Distribution expenses

Selling and distribution expenses of NP comprised mainly staff commissions as well as advertising and promotion expenses.

These expenses for in each of the years ended 31 December 2016, 2017 and 2018 were amounted to US$67,347, US$39,299 and US$22,101 respectively.

Administrative expenses

The administrative expenses of NP comprised mainly (i) staff cost; (ii) depreciation of plant and equipment; and (iii) other expenses associated with NP's general administrative activities. These expenses were steady decreased from US$431,973 in year 2016 to US$319,324 in year 2017 and US$259,950 in year 2018. Such decrease was mainly due to a decline in staff salaries as a result of reduced number of employee.

Profits for the year

As a result of the foregoing, NP recorded profit of US$82,053, US$160,311 and US$202,490 respectively for each of the years ended 31 December 2016, 2017 and 2018.

Despite decrease in revenue of Year 2018, NP has been successful increased in net profit.

Liquidity, Financial Resources and Gearing

NP did not have any bank loan as at 31 December 2016, 2017 and 2018.

The cash and cash equivalents of NP were US$23,037, US$6,258 and US$7,206 as at 31 December 2016, 2017 and 2018 respectively.

The total equity of NP were US$286,571, US$446,882 and US$605,372 as at 31 December 2016, 2017 and 2018 respectively.

Contingent Liabilities

As at 31 December 2016, 2017 and 2018, NP did not have any significant contingent liabilities.

Capital Commitments

As at 31 December 2016, 2017 and 2018, NP did not have any capital commitments.

Charge or Pledge of Assets and Capital Structure

No assets of NP were pledged as at 31 December 2016, 2017 and 2018.

Foreign Currency Risks

All transactions were denominated in USD, which is its functional currency. As such, NP has limited exposure to any significant foreign currency exchange risks.

Material Investments

As at 31 December 2016, 2017 and 2018, there was no significant investment held by NP.

Employees and Remuneration Policy

As at 31 December 2018, NP employed 4 employees. Staff cost incurred were approximately US$162,153, US$99,078 and US$68,723 respectively for each of the years ended 31 December 2016, 2017 and 2018. Employee remuneration was determined by reference to market terms and the performance, qualification and experience of individual employee.

Material Acquisitions and Disposals of Subsidiaries, Associates and Joint Ventures

There were no material acquisitions or disposals of subsidiaries, associates and joint ventures for the three years ended 31 December 2016, 2017 and 2018. NP had no future plans for material acquisitions or disposals of subsidiaries, associates and joint ventures.

UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

Introduction

The following is an illustrative unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group ("Unaudited Pro Forma Financial Information"), which have been prepared in accordance with paragraph 4.29 of the Listing Rules and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial information for Inclusion in Investment Circulars issued by Hong Kong Institute of Certified Public Accountants, for the purpose of illustrating the effect of the proposed acquisitions of 85% equity interests in Novell Enterprises Inc. ("Novell") and NP Enterprises, LLC ("NP") (the "Proposed Acquisitions") on the Group for inclusion in this circular.

The Unaudited Pro Forma Financial Information has been prepared to illustrate the effects of the Proposed Acquisitions on the financial position of the Enlarged Group as at 31 December 2018 as if the Proposed Acquisitions had taken place at 31 December 2018. The Unaudited Pro Forma Financial Information has been prepared for illustrative purpose only, and because of its nature, it may not give a true picture of the financial position of the Enlarged Group had the Proposed Acquisitions been completed as at 31 December 2018, where applicable, or any future dates.

The Unaudited Pro Forma Financial Information should be read in conjunction with the financial statements of the Group as set out in the published interim report of the Group for the six-month ended 31 December 2018, and other financial information included elsewhere in the circular.

(A) Unaudited Pro Forma Consolidated Statement of Assets and Liabilities of the Enlarged Group

	Unaudited consolidated statement of assets and liabilities of the Group as at 31 December 2018	Audited consolidated statement of assets and liabilities of Novell as at 31 December 2018	Audited consolidated statement of assets and liabilities of NP as at 31 December 2018	Pro forma adjustments						Unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group as at 31 December 2018
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Note 1)	*(Note 2)*	*(Note 2)*	*(Note 3(a))*	*(Note 3(b))*	*(Note 4(a))*	*(Note 4(b))*	*(Note 5)*	*(Note 6)*	
Non-current assets										
Property, plant and equipment	55,051	1,122	–	(19)		30				56,184
Intangible assets	–	2,622	3,630	568		1,645				8,465
Goodwill	–	–	–		6,922		318			7,240
Land use rights	30,702	–	–							30,702
Investment properties	1,457,883	–	–							1,457,883
Mining right	601,965	–	–							601,965
Interests in a joint venture	13,641	–	–							13,641
Financial assets at fair value through other comprehensive income	14,721	–	–							14,721
Deferred tax assets	5,762	–	–							5,762
	2,179,725	3,744	3,630							2,196,563
Current assets										
Inventories	175,089	52,415	3,222							230,726
Trade receivables	139,656	21,991	888							162,535
Prepayments, deposits and other receivables	27,098	866	3							27,967
Financial assets at fair value through profit or loss	5,188	–	–							5,188
Due from a joint venture	1,355	–	–							1,355
Amounts due from related parties	–	4,954	–						(3,089)	1,865
Cash and cash equivalents	972,838	16	56		(34,232)		(5,446)	(3,500)		929,732
	1,321,224	80,242	4,169							1,359,368
Current liabilities										
Trade payables	94,951	11,288	–							106,239
Other payables and accruals	42,331	670	–							43,001
Contract liabilities	588	135	–							723
Bank loans	611,831	38,675	–							650,506
Amounts due to a related party	–	1,522	3,089						(3,089)	1,522
Obligation under finance leases	88	–	–							88
Dividend payable	34,156	–	–							34,156
Provision for tax	2,232	–	–							2,232
	786,177	52,290	3,089							838,467
Net current assets	535,047	27,952	1,080							520,901
Total assets less current liabilities	2,714,772	31,696	4,710							2,717,464
Non-current liabilities										
Due to related companies	31,183	–	–							31,183
Loan from ultimate holding company	350,000	–	–							350,000
Loan from a controlling shareholder	4,576	–	–							4,576
Deferred tax liabilities	133,940	–	–	115		352				134,407
	519,699	–	–							520,166
Net assets	2,195,073	31,696	4,710							2,197,298

(B) Notes to the Unaudited Pro Forma Consolidated Statement of Assets and Liabilities of the Enlarged Group

1) The consolidated statement of assets and liabilities of the Group as at 31 December 2018 is extracted from the published interim report of the Company for the six-month ended 31 December 2018.

2) The statement of assets and liabilities of Novell and NP as at 31 December 2018 are extracted from the Historical Financial Information of Novell and NP included in Appendix II to this circular.

   The functional currency and the presentation currency of Novell and NP are United States Dollars ("USD"). For illustrative purpose, the assets and liabilities of Novell and NP as at 31 December 2018 are translated into HK$, the presentation currency of the Group, at the exchange rate of USD1.00 to HK$7.78. Such translation does not constitute a representation that any amount has been, could have been, or may otherwise be exchanged or converted at the above rate.

3) In accordance with the stock purchase agreement, the considerations of HK$34,232,000 (equivalent to USD4,400,000) for the Proposed Acquisition of Novell will be settled in cash. Upon completion of the Proposed Acquisition, the Group will own 85% equity interests in Novell. The identifiable assets and liabilities of Novell will be accounted for in the consolidated financial statements of the Enlarged Group at their fair values under the acquisition method of accounting in accordance with HKFRS 3 "Business Combinations".

   For the purpose of the unaudited pro forma consolidated assets and liabilities of the Enlarged Group, the allocation of the purchase consideration is determined based on the estimates of the fair values of the identifiable assets and liabilities made by the directors of the Company, and by reference to a valuation report by an independent qualified valuer, as if the Proposed Acquisition was completed on the 31 December 2018.

Pro forma adjustments made represent:

(a) Recognition of fair values of the identifiable assets acquired and liabilities assumed of Novell:

		Carrying amounts	Fair value adjustments	Fair values
		HK$'000	*HK$'000*	*HK$'000*
Property, plant and equipment	*(i)*	1,122	(19)	1,103
Intangible assets	*(ii)*	2,622	568	3,190
Inventories		52,415	–	52,415
Trade receivables		21,991	–	21,991
Prepayments		866	–	866
Amounts due from related parties		4,954	–	4,954
Cash and cash equivalents		16	–	16
Trade payables		(11,288)	–	(11,288)
Other payables and accruals		(670)	–	(670)
Contract liabilities		(135)	–	(135)
Borrowings		(38,675)	–	(38,675)
Amount due to a related party		(1,522)	–	(1,522)
Deferred tax liabilities	*(iii)*	–	(115)	(115)
		31,696	434	32,130

(i) The adjustment represents the fair value adjustments of Novell's property, plant and equipment of approximately HK$19,000 (equivalent to USD2,490) which is determined based on replacement cost method. The fair values of Novell's property, plant and equipment were based on the valuation report issued by independent professional valuer.

(ii) The adjustment represents the fair value adjustment of Novell's intangible assets of HK$568,000 (equivalent to USD73,000) which is determined based on relief from royalty method. The fair values of Novell's intangible assets were based on the valuation report issued by independent professional valuer.

(iii) The adjustment represents the deferred tax liabilities in relation to the fair value adjustments of the property, plant and equipment and intangible assets of approximately HK$115,000 which was determined at the US corporate income tax rate of 21% on the aggregate amount of the fair value adjustments.

(b) Recognition of non-controlling interests:

	HK$'000
Fair value of consideration:	
Cash *(note 3(c))*	34,232
Net identifiable assets acquired:	
Carrying amounts of net assets of Novell *(note 3(a))*	31,696
Fair value adjustments *(note 3(a))*	434
Total net assets acquired	32,130
Less: non-controlling interests of Novell	(4,820)
Identifiable assets acquired and liabilities assumed	27,310
Goodwill arising from the Proposed Acquisition *(note 3(d))*	6,922

The amount of non-controlling interests HK$4,820,000 is calculated as 15% of the total fair value of identifiable assets and liabilities of HK$32,130,000 attributable to owners of Novell.

(c) The consideration shall be settled in the following manner:

(i) a deposit by way of cash of HK$3,423,000 (equivalent to USD440,000) after the signing of the stock purchase agreement; and

(ii) the remaining consideration of HK$30,809,000 (equivalent to USD3,960,000 shall be satisfied by cash on closing date of the Proposed Acquisition.

The settlement of all the consideration is assumed to be settled by internal resources of the Group.

(d) In the preparation of the Unaudited Pro Forma Consolidated Statement of Assets and Liabilities of the Enlarged Group, fair values of the net assets of Novell as at 31 December 2018 were used to determine the goodwill of the Proposed Acquisition. Upon completion of the Proposed Acquisition, the fair values of the net assets of Novell as at the date of completion will be used to determine the actual amount of goodwill of the Proposed Acquisition. Such actual amount may be different from the amount presented herein and such difference may be significant. The Directors of the Company have assessed whether there is any impairment in respect of the pro forma goodwill expected to arise from the Proposed Acquisition, on a pro forma basis, in accordance with Hong Kong Accounting Standard 36 "Impairment of Assets". Based on the assessment results, the Directors of the Company concluded that there is no impairment on the cash generating unit, comprising the identifiable assets acquired and liabilities assumed of Novell in which the pro forma goodwill and intangible assets identified stated above have been allocated.

The amount of goodwill and fair values of the identifiable assets and liabilities of Novell are subject to change upon the completion of the valuation of the fair values of the identifiable assets and liabilities of Novell on the date of completion of the Proposed Acquisition. Consequently, the resultant goodwill, the actual allocation of the purchase consideration and the resultant non-controlling interests at the date of completion for subsequent periods, will likely be different amounts from those stated in this unaudited pro forma consolidated assets and liabilities of the Enlarged Group.

4) In accordance with the stock purchase agreement, the considerations of HK$5,446,000 (equivalent to USD700,000) for the Proposed Acquisition of NP will be settled in cash. Upon completion of the Proposed Acquisition, the Company will own 85% equity interests in NP. The identifiable assets and liabilities of NP will be accounted for in the consolidated financial statements of the Enlarged Group at their fair values under the acquisition method of accounting in accordance with HKFRS 3 "Business Combinations".

For the purpose of the unaudited pro forma consolidated assets and liabilities of the Enlarged Group, the allocation of the purchase consideration is determined based on the estimates of the fair values of the identifiable assets and liabilities of NP made the by the directors of the Company, and by reference to a valuation report by an independent qualified valuer, as if the Proposed Acquisition was completed on the 31 December 2018.

Pro forma adjustments made represent:

(a) Recognition of fair values of the identifiable assets acquired and liabilities assumed of NP:

		Carrying amounts	**Fair value adjustments**	**Fair values**
		HK$'000	*HK$'000*	*HK$'000*
Property, plant and equipment	*(i)*	–	30	30
Intangible assets	*(ii)*	3,630	1,645	5,275
Inventories		3,222	–	3,222
Trade receivables		888	–	888
Prepayments and deposits		3	–	3
Cash and cash equivalents		56	–	56
Amount due to a related party		(3,089)	–	(3,089)
Deferred tax liabilities	*(iii)*	–	(352)	(352)
		4,710	1,323	6,033

(i) The adjustment represents the fair value adjustments of NP's property, plant and equipment of approximately HK$30,000 (equivalent to USD3,880) which is determined based on replacement cost method. The fair values of NP's property, plant and equipment were based on the valuation report issued by independent professional valuer.

(ii) The adjustment represents the fair value adjustments of NP's intangible assets of HK$1,645,000 (equivalent to USD211,400) which is determined based on relief from royalty method. The fair values of NP's intangible assets were based on the valuation report issued by independent professional valuer.

(iii) The adjustment represents the deferred tax liabilities in relation to the fair value adjustments of the property, plant and equipment and intangible assets of approximately HK$1,675,000 which was determined at the US corporate income tax rate of 21% on the aggregate amount of the fair value adjustments.

(b) Recognition of non-controlling interests:

	HK$'000
Fair value of consideration:	
Cash *(note 4(c))*	5,446
Net identifiable assets acquired:	
Carrying amounts of net assets of NP *(note 4(a))*	4,710
Fair value adjustments *(note 4(a))*	1,323
Total net assets acquired	6,033
Less: non-controlling interests of NP	(905)
Identifiable assets acquired and liabilities assumed	5,128
Goodwill arising from the Proposed Acquisition *(note 4(d))*	318

The amount of non-controlling interests HK$905,000 is calculated as 15% of the total fair value of identifiable assets and liabilities of HK$6,033,000 attributable to owners of NP.

(c) The consideration shall be paid in the following manner:

(i) a deposit by way of cash of HK$545,000 (equivalent to USD70,000) after the signing of the stock purchase agreement; and

(ii) the remaining consideration of HK$4,901,000 (equivalent to USD630,000 shall be satisfied by cash on closing date of the Proposed Acquisition.

The settlement of all the consideration is assumed to be settled by internal resources of the Group.

(d) In the preparation of the Unaudited Pro Forma Consolidated Statement of Assets and Liabilities of the Enlarged Group, fair values of the net assets of NP as at 31 December 2018 were used to determine the goodwill of the Proposed Acquisition. Upon completion of the Proposed Acquisition, the fair values of the net assets of NP as at the date of completion will be used to determine the actual amount of goodwill of the Proposed Acquisition. Such actual amount may be different from the amount presented herein and such difference may be significant. The Directors of the Company have assessed whether there is any impairment in respect of the pro forma goodwill expected to arise from the Proposed Acquisition, on a pro forma basis, in accordance with Hong Kong Accounting Standard 36 "Impairment of Assets". Based on the assessment results, the Directors of the Company concluded that there is no impairment on the cash generating unit, comprising the identifiable assets acquired and liabilities assumed of NP in which the pro forma goodwill have been allocated.

The amount of goodwill and fair values of the identifiable assets and liabilities of NP are subject to change upon the completion of the valuation of the fair values of the identifiable assets and liabilities of NP on the date of completion of the Proposed Acquisition. Consequently, the resultant goodwill, the actual allocation of the purchase consideration and the resultant non-controlling interests at the date of completion for subsequent periods, will likely be different amounts from those stated in this unaudited pro forma consolidated assets and liabilities of the Enlarged Group.

5) Estimated legal and professional fees and other direct expenses in relation to the Proposed Acquisitions of approximately HK$3,500,000. The settlement of all these expenses is assumed to be settled by internal resources of the Group.

6) The adjustment represented the elimination of the inter-company balances upon completion of the acquisition.

7) The above pro forma adjustments are not expected to have a continuing effect on the Unaudited Pro Forma Consolidated Statement of Assets and Liabilities of the Enlarged Group.

8) No adjustments has been made to reflect any trading results or other transactions of the Enlarged Group entered into subsequent to 31 December 2018.

UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

REPORTING ACCOUNTANTS' REPORT ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The following is the text of a report from BDO Limited, the independent reporting accountant, in respect of the unaudited pro forma financial information of the Enlarged Group as set out in this Appendix and prepared for the sole purpose of inclusion in this circular.

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INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

To the directors of Continental Holdings Limited

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Continental Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") by the directors of the Company for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma consolidated statement of assets and liabilities as at 31 December 2018 and related notes as set out on pages 1 to 10 of Appendix III of the Company's circular dated 27 June 2019 (the "Circular") in connection with the proposed acquisitions of 85% equity interests in Novell Enterprises Inc. and NP Enterprises, LLC (hereinafter collectively referred to as the "Proposed Acquisitions"). The applicable criteria on the basis of which the directors of the Company have compiled the unaudited pro forma financial information are described on page 1 of Appendix III of the Circular.

The unaudited pro forma financial information has been compiled by the directors of the Company to illustrate the impact of the Proposed Acquisitions on the Group's financial position as at 31 December 2018 as if the Proposed Acquisitions had taken place at 31 December 2018. As part of this process, information about the Group's financial position has been extracted by the directors of the Company from the Company's unaudited interim financial information for the six-month ended 31 December 2018, on which no independent auditor's review report has been published.

Directors' Responsibility for the Unaudited Pro Forma Financial Information

The directors of the Company are responsible for compiling the unaudited pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the "Code of Ethics for Professional Accountants" issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 "Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements" issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the directors of the Company have compiled the unaudited pro forma financial information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the unaudited pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the unaudited pro forma financial information.

The purpose of unaudited pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the Proposed Acquisitions 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 unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related 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 accountants' judgment, having regard to the reporting accountants' understanding of the nature of the entity, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

(a) the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

BDO Limited
Certified Public Accountants
Hong Kong

27 June 2019

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules ("Model Code") to be notified to the Company and the Stock Exchange, were as follows:

Interests in shares of the Company

Name of Directors	Number of ordinary shares of the Company Personal Interest	 Corporate interest	 Underlying interest	Total	Approximate percentage of all the issued shares of the Company
Chan Wai Lap, Victor	2,700,000	–	30,000,000 *(Note (ii))*	32,700,000	0.48%
Chan Sing Chuk, Charles	–	5,063,395,220 *(Note (i))*	–	5,063,395,220	74.12%
Cheng Siu Yin, Shirley	–	5,063,395,220 *(Note (i))*	–	5,063,395,220	74.12%
Chan Ping Kuen, Derek	200,000	–	–	200,000	0.003%
Chan Wai Kei, Vicki	–	–	30,000,000 *(Note (ii))*	30,000,000	0.44%
Yam Tat Wing	2,400,000	–	20,000,000 *(Note (ii))*	22,400,000	0.33%
Wong Edward Gwon-hing	–	–	30,000,000 *(Note (ii))*	30,000,000	0.44%

Notes:

(i) Such interests are held by Tamar Investments Group Limited, which is a company owned as to 45% by Dr. Chan Sing Chuk, Charles, 45% by Ms. Cheng Siu Yin, Shirley and 10% by Mr. Chan Wai Lap, Victor. Mr. Chan Wai Lap, Victor, Dr. Chan Sing Chuk, Charles and Ms. Cheng Siu Yin, Shirley are also directors of Tamar Investments Group Limited.

(ii) These interests represent the interests in underlying shares of the Company in respect of share options granted to the Directors as further described below.

Interests in options granted under the share option scheme of the Company adopted on 13 July 2010

Name of Directors	Number of options outstanding as at the Latest Practicable Date	Date of grant	Exercisable period	Exercise price
Chan Wai Lap, Victor	10,000,000	19 June 2014	19 June 2014 to 18 June 2024	HK$0.138
	10,000,000	7 July 2015	7 July 2015 to 6 July 2025	HK$0.245
	10,000,000	3 November 2016	3 November 2016 to 2 November 2026	HK$0.149
Chan Wai Kei, Vicki	10,000,000	19 June 2014	19 June 2014 to 18 June 2024	HK$0.138
	10,000,000	7 July 2015	7 July 2015 to 6 July 2025	HK$0.245
	10,000,000	3 November 2016	3 November 2016 to 2 November 2026	HK$0.149
Wong Edward Gwon-hing	10,000,000	25 July 2014	25 July 2014 to 24 July 2024	HK$0.121
	10,000,000	7 July 2015	7 July 2015 to 6 July 2025	HK$0.245
	10,000,000	3 November 2016	3 November 2016 to 2 November 2026	HK$0.149
Yam Tat Wing	10,000,000	7 July 2015	7 July 2015 to 6 July 2025	HK$0.245
	10,000,000	3 November 2016	3 November 2016 to 2 November 2026	HK$0.149

Interests in shares of associated corporation of the Company

Name of associated corporation	Name of Directors	Nature of interest	Number of shares	Percentage of all the issued shares of the associated corporation
Tamar Investments Group Limited	Chan Wai Lap, Victor	Personal	10	10.00%
	Chan Sing Chuk, Charles	Personal	45	45.00%
	Cheng Siu Yin, Shirley	Personal	45	45.00%

Save as disclosed above, as at the Latest Practicable Date, none of the Directors nor chief executive of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered into the register referred to therein; or (c) pursuant to the Model Code to be notified to the Company and the Stock Exchange.

(a) As at the Latest Practicable Date, save and except the transactions disclosed in the circular of the Company dated 29 November 2018, none of the Directors had any interest, direct or indirect, in any assets which had been, since 30 June 2018, being the date to which the latest published audited consolidated financial statements of the Group were made up, acquired or disposed of by or leased to any member of the Enlarged Group, or are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

(b) None of the Directors is materially interested in any contract or arrangement subsisting at the date of this circular which is significant in relation to the business of the Enlarged Group as a whole.

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

(d) As at the Latest Practicable Date, save for Dr. Chan Sing Chuk, Charles, an executive Director, who held interest and directorship in companies engaged in the same business of gold mining activities in Sichuan Province of the PRC and Indonesia, none of the Directors nor any of their respective close associates had any interest in a business apart from the business of the Group, which competed or was likely to compete, either directly or indirectly, with that of the Group.

3. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business of the Enlarged Group) have been entered into by members of the Enlarged Group within the 2 years immediately preceding the date of this circular and are or may be material:

– a loan agreement dated 17 July 2017 entered into between the Company as borrower and Dr. Chan Sing Chuk, Charles ("Dr. Chan") as lender in relation to loan facilities in the amount of HK$50,000,000. The loan has been fully repaid to Dr. Chan by the Company;

– a conditional binding preliminary agreement dated 17 July 2017 between Hillcharm Limited (as seller), Globe Deal Investments Limited (a wholly-owned subsidiary of the Company as purchaser), CSI Properties Limited and Wisdom King Investments Limited (as seller's guarantors) and Pacific Gate Investment Limited, pursuant to which Globe Deal Investments Limited has conditionally agreed to acquire, and Hillcharm Limited has conditionally agreed to sell, the entire issued share capital of Ontrack Ventures Limited and all the inter-company loan owing by Ontrack Ventures Limited to Hillcharm Limited at completion of the said agreement at an aggregate consideration of HK$1,180,000,000, subject to the adjustment prescribed therein;

– a loan agreement dated 25 September 2017 entered into between the Company as borrower and Tamar Investments Group Limited ("Tamar") as lender in relation to loan facilities in the amount of HK$350,000,000. The loan has been fully repaid to Tamar by the Company;

– a sale and purchase agreement dated 22 January 2018 entered into between Master Gold Development Limited (a wholly-owned subsidiary of the Company) as vendor, the Company as Master Gold Development Limited's guarantor and A Glory Communications Limited as purchaser for the sale and purchase of 50% of the issued shares of Wealth Plus Developments Limited and 50% of the shareholder loans owing by Wealth Plus Developments Limited. The total amount of the consideration was approximately HK$1,308,000,000 (before adjustment);

– a provisional sale and purchase agreement dated 23 May 2018 entered into between Equal Glory Limited as the purchaser and an independent third party as the vendor in relation to Well Century Investments Limited, which holds part of the land and properties located at Nos. 7, 7A, 9 and 9A of Cheung Wah Street, Cheung Sha Wan, at an aggregate consideration of HK$80,500,000;

– a provisional sale and purchase agreement dated 23 May 2018 entered into between Equal Glory Limited as the purchaser and two independent third parties as the vendors in relation to Rich Dragon Enterprises Limited, which holds part of the land and properties located at Nos. 7, 7A, 9 and 9A of Cheung Wah Street, Cheung Sha Wan, at an aggregate consideration of HK$80,500,000;

– a provisional sale and purchase agreement dated 23 May 2018 entered into between Equal Glory Limited as the purchaser and an independent third party as the vendor in relation to No. 9 of Cheung Wah Street, at an aggregate consideration of HK$67,000,000;

– a provisional sale and purchase agreement dated 23 May 2018 entered into between Equal Glory Limited as the purchaser and an independent third party as the vendor in relation to No. 7 of Cheung Wah Street, at an aggregate consideration of HK$67,000,000;

– 11 preliminary sale and purchase agreements dated 20 July 2018 entered into between the Group and an independent third party relating to the acquisition of 100% equity interests of eleven companies (the "Glassview Acquisition"), which principal asset comprise 12 floors in a commercial building in Yuen Long at a total consideration of HK$129,000,000;

– a sale and purchase agreement dated 29 October 2018 entered into among Fairy Tale International Limited, Radiant Achieve Limited (a wholly-owned subsidiary of the Company), Globe Deal Investments Limited (a wholly-owned subsidiary of the Company), Luminous Fortune Limited, Tamar Investments Group Limited (as the guarantor for the due performance of the obligations of Fairy Tale International Limited and Luminous Fortune Limited under the said agreement) and the Company (as the guarantor for the due performance of the obligations of Radiant Achieve Limited and Globe Deal Investments Limited under the said agreement) in relation to, among others, (y) the sale and purchase of 25% of the entire issued share capital of Ontrack Ventures Limited and 25% of the shareholder loans owing by Ontrack Ventures Limited; and (z) the sale and purchase of 90% of the entire issued share capital of Equal Glory Limited and 90% of the shareholder loans owing by Equal Glory Limited;

- an amendment and restatement deed dated 2 November 2018 entered into among Fairy Tale International Limited, Radiant Achieve Limited (a wholly-owned subsidiary of the Company), Globe Deal Investments Limited (a wholly-owned subsidiary of the Company), Luminous Fortune Limited, Tamar Investments Group Limited (as the guarantor for the due performance of the obligations of Luminous Fortune Limited), Dr. Chan Sing Chuk, Charles (as the guarantor for the due performance of the obligations of Fairy Tale International Limited) and the Company (as the guarantor for the due performance of the obligations of Radiant Achieve Limited and Globe Deal Investments Limited) to amend and restate certain terms of the sale and purchase agreement dated 29 October 2018;

- a subscription agreement dated 8 May 2019 entered into by Perfect Wisdom Limited (a wholly-owned subsidiary of the Company) in relation to its investment in 33% of Metropolitan Capital (the "Fund Manager"), a company which acts as the fund manager of Metropolitan Opportunity Fund SPC (the "Fund"). The Fund Manager would through the Fund invest 100% in Hong Kong and China in-house operating (Co-living) and IT platforms in hospitality, residential, and commercial developments. The Company would invest in the amount of HK$18,000,000 into the Fund;

- the SP Agreement.

4. EXPERT(S) AND CONSENT(S)

The qualification of the expert ("Expert") who has given its opinions in this circular is as follows:

Name	Qualifications
BDO Limited	Certified Public Accountants

The Expert has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter and/or report and/or references to its name, in the form and context in which they respectively appear.

As at the Latest Practicable Date, the Expert had no shareholding in any member of the Enlarged Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Enlarged Group and had no direct or indirect interest in any assets which have been, since 30 June 2018, being the date to which the latest published audited consolidated financial statements of the Group were made up, acquired or disposed of by or leased to any member of the Enlarged Group, or are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

5. GENERAL

(a) The secretary of the Company is Mr. Hui Chun Lam. Mr. Hui is a member of CPA Australia, an associate member of the Hong Kong Institute of Certified Public Accountants and member of both The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries.

(b) The registered office of the Company is situated at Flats M and N, 1/F., Kaiser Estate, Phase III, 11 Hok Yuen Street, Hunghom, Kowloon, Hong Kong.

(c) The share registrar and transfer office of the Company is Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

(d) As at the Latest Practicable Date, there was no litigation or claim of material importance known to the Directors to be pending or threatened against any member of the Enlarged Group.

(e) In case of inconsistency, the English text of this circular shall prevail over the Chinese text.

6. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours on any weekday (public holidays excepted) at the registered office of the Company at Flats M and N, 1/F., Kaiser Estate, Phase III, 11 Hok Yuen Street, Hunghom, Kowloon, Hong Kong from the date of this circular to (and including) the date of the General Meeting:

– the articles of association of the Company;

– the Letter from the Board;

– the annual reports of the Company for the three years ended 30 June 2017 and 2018;

– the interim report of the Company for the six months ended 31 December 2018;

– the accountants' reports on the Acquired Companies, the text of which is set out in Appendix II to this circular;

– the assurance report in respect of the unaudited pro forma financial information of the Enlarged Group, the text of which is set out in Appendix III to this circular;

– a copy of each of the material contracts referred to in the paragraph headed "4. Material Contracts" in this Appendix;

– the written consent referred to in the paragraph headed "5. Expert(s) and Consent(s)" in this Appendix;

– the circular of the Company dated 29 November 2018; and

– this circular

CONTINENTAL
HOLDINGS LIMITED
恒和珠寶集團有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 00513)

NOTICE IS HEREBY GIVEN that a general meeting (the "General Meeting") of Continental Holdings Limited (the "Company") will be held at Function Rooms 2&3, 3/F, The Mira Hong Kong, 118 Nathan Road, Tsimshatsui, Kowloon, Hong Kong on Tuesday, 16 July 2019 at 11:00 a.m. for the purpose of considering and, if thought fit, passing (with or without modifications) the following resolution which will be proposed as an ordinary resolution:

1. "**THAT:**

   (a) the stock purchase agreement dated 6 May 2019 (the "SP Agreement") entered into between Bruce Pucciarello, Victor Novogrodzky and two trusts established for the benefits of the family members of Victor Novogrodzky as the sellers (the "Sellers") and CJ Holdings USA Inc, a wholly-owned subsidiary of the Company, as the buyer (the "Buyer"), a copy of which has been produced to the meeting marked "A" and initialed by the chairman of the meeting for the purpose of identification) in relation to the proposed acquisition of 85% of the issued and outstanding stock and/or membership of Novell Enterprises Inc. and NP Enterprises, LLC (d/b/a Lieberfarb) (collectively, the "Acquired Companies") by the Buyer from the relevant Sellers for a total cash consideration of US$5,100,000 and in consideration of the provision of a guarantee by the Company to the bank(s) in respect of the Acquired Companies' bank facilities of up to US$6,000,000, and the transactions contemplated under the SP Agreement be and are hereby approved, ratified and confirmed; and

(b) the directors of the Company (or a duly authorized committee thereof) be and are hereby authorised to execute any other documents and deeds as may be necessary or appropriate in relation thereto and to take any such steps and actions as they may in their opinion consider to be necessary, appropriate or expedient to implement or to give effect to the Acquisition and such other transactions as contemplated by the SP Agreement, subject to such non-material modifications, amendments, waivers, variations or extensions of the terms and conditions of any such agreement as they may in their opinion think fit."

By Order of the Board
Chan Wai Lap, Victor
Chairman

Hong Kong, 27 June 2019

Registered office:
Flats M and N, 1/F.
Kaiser Estate, Phase III
11 Hok Yuen Street Hunghom,
Kowloon Hong Kong

Notes:

(1) Any member of the Company entitled to attend and vote at the General Meeting is entitled to appoint another person as his proxy to attend and vote instead of him. A proxy need not be a member of the Company.

(2) Where there are joint registered holders of any share of the Company, any one of such persons may vote at the General Meeting, either personally or by proxy, in respect of such share as if he was solely entitled thereto; but if more than one of such joint holders be present at the General Meeting personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such share shall alone be entitled to vote in respect thereof.

(3) Completion and return of the form of proxy will not preclude a member from attending and voting at the General Meeting or any adjournment thereof if he so wishes. In that event, his form of proxy will be deemed to have been revoked.

(4) In order to be valid, the form of proxy duly completed and signed in accordance with the instructions printed thereon together with the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority must be delivered to the registered office of the Company at Flats M and N, 1/F., Kaiser Estate, Phase III, 11 Hok Yuen Street, Hunghom, Kowloon, Hong Kong not less than 48 hours before the time appointed for holding the General Meeting or any adjournment thereof.

(5) For determining the entitlement to attend and vote at the General Meeting, the register of members of the Company will be closed from 11 July 2019 to 16 July 2019, both dates inclusive, during which period no transfer of Shares will be effected. In order to be eligible to attend and vote at the General Meeting, all duly completed and signed transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration not later than 4:30 p.m. on 10 July 2019.