

BUSINESS

1. OVERVIEW

We are an integrated energy saving solutions provider based in Hong Kong, specialising in lighting solutions. We possess a full range of capabilities which allows us to provide a broad range of energy saving services for lighting solutions, ranging from advising on lighting solution, product customisation, on-site inspection and measurement, product sourcing, project deployment to after sales service. Depending on our customers' specific needs and requirements, we provide either a part of such services within our range of capabilities as specified by our customers to cater their needs under our trading of lighting products business or our Consultancy Services, or we provide an entire spectrum of services, as in the provision of our leasing services. According to the Ipsos Report, our business model is consistent with that of a typical energy service company within the industry and we are the fourth largest energy management contract provider for lighting projects in Hong Kong in terms of total revenue for the year ended 31 December 2013.

Our services is provided to a wide range of customers such as distributors, energy service companies, property management companies, car park operators, retail operators, banks and insurance companies. Among our customers or the end-users of our lighting products or energy saving solutions, many of them are reputable and/or multi-national companies which utilise relatively substantial amount of electricity in the properties which they manage or operate, such as office premises, shopping malls, residential properties, car parks, retail chains and restaurants, etc.. During the Track Record Period, we had customers from Hong Kong, Japan, Australia, Malaysia, Singapore and other overseas regions.

Depending on the range of services we offer to our customers, our business is broadly divided into three segments, namely, (i) trading of lighting products; (ii) provision of Consultancy Services; and (iii) provision of leasing services. The key aspects of our services provided for each of the three business segments are set out in the first table under the paragraph headed "Business model" in this section.

For an illustration of the various stages of our work showing the typical workflow in our trading of lighting products, provision of Consultancy Services and provision of leasing services respectively, please refer to the flow chart set out under the paragraph headed "Business model" in this section.

(i) Trading of lighting products

We provide our energy saving solutions by selling our lighting products, including our "Tube-in-Tube" Fluorescent Lamps, LEDs and induction lamps to our customers together with provision of support arrangement as depicted in the first table under the paragraph headed "Business model" in this section, which may include provision of our business and technical know-how and advice on lighting products, customisation and advice on lighting products specifications and providing training on sales and marketing techniques of our lighting products. Our trading customers are mainly overseas distributors. We enter into distribution agreements (both exclusive and non-exclusive) with our distributors, who have local knowledge and market information in their local markets. Complementary to delivery of our lighting products to our distributors, we also provide sales support and documentations so as to assist and facilitate them in engaging their energy saving business in their respective markets. Apart from our distributors, we may also occasionally enter into one-off sales contracts with our direct sales customers such as property management company and factory operator. We mainly sell our lighting products to them when they prefer direct purchase or, in the case of new projects, where past electricity consumption comparable is not available.

Our lighting products are priced with reference to a few factors including (i) electricity price; (ii) market acceptance of environmentally friendly lighting products in the relevant local markets; and (iii) the estimated revenues our customers may charge to their end customers for provision of energy saving solutions (if applicable). So far, we mainly sell our "Tube-in-Tube" Fluorescent Lamps, LEDs and induction lamps to our overseas customers.

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(ii) Consultancy Services

We also provide Consultancy Services which assist our Consultancy Services customers, who are energy saving consultancy services providers, in providing their services in their respective regions. We provide our Consultancy Services customers with the business and technical know-how relating to energy saving solutions. Leveraging on our technical know-how and experience in providing energy saving solutions in Hong Kong, our primary objective for provision of our Consultancy Services is to assist and facilitate our Consultancy Services customers in establishing their energy saving business and serve their customers in their designated markets. Each of the CS Contracts we entered into during the Track Record Period for provision of our Consultancy Services is project-based.

As depicted in the first table under the paragraph headed "Business model" in this section, our scope of Consultancy Services includes (i) the provision of business and technical know-how principally on energy saving and installation assessment; (ii) on-site inspection and measurement on our customers' behalf at the targeted sites under the project; (iii) customisation and advice on lighting product specifications; (iv) issuance of measurement reports, analysis and carbon emission audit report showing the amount of savings if our suggested products are being used to replace the existing lighting products of the designated site of the end customers; and (v) the provision of marketing materials showing energy saving case studies, referrals and credentials.

Our Consultancy Services do not involve selling or leasing of our lighting products to our Consultancy Services customers or any third parties, but we will make recommendations on procurement and sourcing of lighting products from suitable suppliers including our OEMs and our short-listed suppliers. In the case if our "Tube-in-Tube" Fluorescent Lamps are the selected products, we will authorise our OEMs to supply the recommended quantity of such products to our Consultancy Services customers or their end customers directly. In return for our services rendered, we will charge our Consultancy Services fees with reference to our estimation on the revenue that our Consultancy Services customers may generate from their provision of energy saving solutions to their end customers.

(iii) Leasing services

We provide our energy saving solutions by leasing our lighting products to our customers. As illustrated in the first table under the paragraph headed "Business model" in this section, our leasing services comprise a full range of services along the business value chain from advising on lighting solutions to provision of after-sales services. The contract which we enter into in respect of our leasing services is generally referred as EMC. Before we enter into EMCs with our customers, we provide on-site electricity consumption assessment using our calibrated measuring devices. Based on the on-site data we obtained, we propose different energy saving lighting products which comprise of our "Tube-in-Tube" Fluorescent Lamps and/or other lighting products to achieve electricity consumption savings for our customers.

The prominent features of our leasing services include (i) providing all of our energy saving lighting products at no initial costs to our customers with generally free installation; (ii) providing retrofit feature of our lighting products and generally does not require our customers to replace their existing lighting fixtures to use our lighting products; and (iii) during the term of the EMC, when our lighting products become faulty or spent and upon notification from our customers, providing replacement of lighting products to our customers. We generally sign three-year EMCs with our customers. During the term of the EMC, we charge a pre-determined fixed monthly leasing fee which represents a portion of the estimated savings on the customers' electricity charges after replacing their existing lighting products with our proposed lighting products based on the assessment results. The pre-determined fixed monthly leasing fee will not be adjusted during the contract term unless (i) where the actual total energy saving per month is substantially less than the estimated total energy saving per month as set out in the EMC, in which case, failing remedial actions, we shall determine such shortfall and adjust downwards the

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monthly leasing fee accordingly; or (ii) in the event that the effective electricity unit rate actually charged under the electricity bill is increased or decreased by more than 5% when compared to the electricity unit rate at the time of entering into the EMC, the fixed monthly leasing fee will be adjusted correspondingly. If the saving performance cannot be achieved after the failure of our remedial actions, our customers are entitled to early terminate the EMC without any penalty payable to us.

The lighting products being offered to our customers under our leasing services include our "Tube-in-Tube" Fluorescent Lamps and/or other lighting products, which include LEDs and induction lamps.

Our customers in this business segment are mainly end-users of energy saving solutions, among which many of them are reputable and/or multi-national companies in Hong Kong, such as property management companies, car park operators, retail operators, banks and insurance companies, which utilise relatively substantial amount of electricity in the properties which they manage or operate, such as office premises, shopping malls, residential properties, car parks, retail chains and restaurants, etc.. As at the Latest Practicable Date, customers of our leasing services segment are mainly based in Hong Kong.

The table below sets forth the revenue generated by our Group's trading of lighting products, Consultancy Services and leasing services, in absolute amounts and as a percentage of our Group's total revenue, for the period indicated:

	Year ended 31 March				Six months ended 30 September	
	2013		2014		2014	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Trading of:						
"Tube-in-Tube" Fluorescent Lamps	25,058	35.4	33,304	41.7	13,164	34.8
Induction lamps ^{Note}	1,076	1.5	4,455	5.6	9,029	23.8
LEDs	1,045	1.5	4,300	5.4	970	2.6
Consultancy Services	34,992	49.4	27,856	34.8	10,503	27.8
Leasing services	8,672	12.2	10,020	12.5	4,181	11.0
Total	<u>70,843</u>	<u>100.0</u>	<u>79,935</u>	<u>100.0</u>	<u>37,847</u>	<u>100.0</u>

Note: Induction lamps include high bay lamps, flood lights and the relevant parts of such lighting products.

Our business strategies include:

- Further expand in the international markets through customisation of our lighting products and appointment of distributors
- Continue to expand in the PRC markets through offering our Consultancy Services or entering into strategic partnerships
- Continue to expand our energy saving solutions business in Hong Kong
- Engage in marketing activities to enhance our brand image and recognition
- Enhance our research and development capabilities

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Our Group has long term strategies to develop energy saving business in the industry. During the Track Record Period, we have successfully provided our leasing services directly to the end customers in Hong Kong which attracted attention and interest from potential overseas customers. We successfully penetrated into various overseas markets, in which we mainly rely on our overseas distributors to provide energy saving solutions to their end customers.

Our Group had engaged a number of distributors for overseas markets and had successfully penetrated into their respective markets during the Track Record Period, with increasing demand for our lighting products which in turn led to an increase in our trading revenue. Our Directors believe that as the popularity of energy saving lighting products grows in the overseas markets, demand for our products will also increase and in turn would lead to continuous development of our trading of lighting products.

2. COMPETITIVE STRENGTHS

We believe that the following competitive strengths are the key features to our success and will enable us to grow our business in the future.

We have an established business model in providing customised and integrated energy saving solutions which is well recognised by our customers

We have an established, proven business model as an all-round integrated energy saving solutions provider specialising in lighting solutions that is well recognised by our customers. According to the Ipsos Report, we are the fourth largest energy management contract provider for lighting projects in Hong Kong in terms of total revenue for the year ended 31 December 2013, accounting for approximately 5.8% of the total revenue of the industry in 2013, while the largest and second largest energy management contract providers have a share of approximately 17.8% and 13.6% respectively of the total revenue of the industry in 2013. We believe that our Group will be able to leverage on our established business model which we have received favourable market responses for our future growth. Our experiences in introducing, developing and promoting our energy saving solutions directly to large and renowned corporations in Hong Kong and through entering into distribution agreements, one-off sales contracts or CS Contracts with our customers in Hong Kong and other international markets coupled with our industry knowhow and experience will enable us to have a comparative advantage over other players in this industry with similar business model.

Our business model also enables us to enjoy flexibilities from low production costs. As we outsource the production of our "Tube-in-Tube" Fluorescent Lamps and high bay lamps to our selected OEM manufacturers and purchase our other lighting products which include mainly LEDs and flood lights from reputable manufacturers, we can minimise our investment costs in production facilities and equipment, this enable us to enjoy flexibilities in researching and developing new versions of our "Tube-in-Tube" Fluorescent Lamps, to minimise the risk that our production facilities will become obsolete and to better utilise our capital in financing our leasing services and trading business.

Our "zero costs energy saving programme" under our leasing services business model is also well recognised by our customers

As our leasing services do not require any upfront costs from our customers for the initial deployment and installation of our lighting products, who are only required to pay a pre-determined fixed monthly leasing fees which represent a portion of the savings on the customers' electricity charges after retrofitting their existing lighting systems with our proposed lighting systems, our zero upfront strategy provides an attractive element for our customers to consider entering into EMCs with us. Moreover, we receive a fixed monthly fee throughout the term our EMCs which are generally of three years term, providing us with a stable and recurring income and cash flow which allows us to reduce our risks exposure during market fluctuations and economy downturn.

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We have a broad and stable customer base consisting of reputable and well-known companies

Our services are provided to a wide range of customers such as distributors, energy service companies, property management companies, car park operators, retail operators, banks and insurance companies.

Our customers for our leasing services are mainly end-users of energy saving solutions, among which many of them are reputable and/or multi-national corporations which utilise substantial quantities of electricity in the properties which they manage or operate in, such as office premises, shopping malls, residential buildings, car parks, retail chains and restaurants, etc. and they are satisfied with our services and products provided. As at the Latest Practicable Date, we had more than 100 subsisting EMCs on hand with more than 50 corporate customers in Hong Kong. The customers of our trading of lighting products comprise mainly distributors, which cover about 15 jurisdictions during the Track Record Period, while we also entered into one-off sales contracts occasionally with non-distributors such as property management companies and factory operator. As for our Consultancy Services, our customers are energy saving consultancy services providers in their respective regions, who provide energy saving services in their respective regions.

We believe as a result of the successful track record of our energy saving solutions with our existing customers, we are able to maintain stable and long term relationship with them. In addition, as they have already become familiar with our energy saving solutions and satisfied with the results of the energy saving performances, we believe we will be able to develop further business opportunities with them in connection with energy savings for other sites and offices owned or managed by them.

Our ability to continue to expand our customer base is attributed to our successful track records, the deployment of lighting products with our industry knowhow and technology and our established market reputation and status. New business opportunities are therefore often referred by our Group's existing customers. We believe we will also be able to shorten our sales cycle with potential customers based upon our successful track records, technical expertise and market recognition.

We have in-depth technical expertise and experience, strong research and development capabilities and we own our patented "Tube-in-Tube" Fluorescent Lamp technology

We possess in-depth technical expertise, know-how and industry experience over the years of our operations in providing integrated energy saving solutions to our customers specialising in lighting solutions. As a manifestation of our advanced knowledge and technical expertise, we are the patented owner of our "Tube-in-Tube" Fluorescent Lamp technology from which we have developed our proven energy saving product – "Tube-in-Tube" Fluorescent Lamps. As our "Tube-in-Tube" Fluorescent Lamp is a retrofit product, its installation does not require replacement of the existing lighting fixtures, it thus helps to reduce our upfront investment costs when we provide leasing services to our customers. Our retrofit product also creates a sustainable solution whereas most energy saving lighting solutions normally need restructuring and create material wastages, and hence are relatively more time consuming with higher costs.

We are committed in continued research and development for advancement of our lighting products and maintaining our advanced level of technical expertise within the industry. Our research and development department, which is led by Mr. Reinig, our research and development consultant with over 40 years of experience in the lighting industry, has made conscious efforts in upgrading our "Tube-in-Tube" Fluorescent Lamps and developing other lighting products to strive for better performance, compliance with the different standards and requirements of different overseas markets and to meet our customers' needs. Our Directors believe that our strong research and development capabilities would allow us to maintain a competitive advantage and further penetrate into new international and local markets as well as to comply with respective market standards. For further details of our research and development team and our proprietary technologies, please refer to the paragraphs headed "Research and development" and "Intellectual property rights" in this section.

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We believe we will be able to rely on our technical expertise and know-how, our technology, our proven product and our Research and Development team to further enhance and maintain our competitive advantage over potential and existing competitors.

We have a dedicated and professional senior management team

Our senior management team, led by Mr. Mansfield Wong, our Chairman, Chief Executive Officer and an executive Director, has been instrumental in successfully developing and implementing our business strategy and business model as an integrated energy saving solutions provider. Mr. Mansfield Wong has over 10 years of management experience and possesses in-depth knowledge of the energy saving industry with a focus in lighting solutions. Mr. Mansfield Wong is assisted by our senior management team, including Mr. Arthur Lam (executive Director), who is a certified Carbon Audit Professional and a certified Energy Manager of The Association of Energy Engineers (Hong Kong Chapter), Mr. Cheng Chi Kuen (chief operation officer) and Mr. Tong Man Chun (chief financial officer and company secretary), which forms a professional senior management team experienced in corporate, strategic, technical, financial and business management. Please refer to the sections headed "Directors, senior management and staff – Executive Directors" and "Directors, senior management and staff – Senior management" in this [REDACTED] for the detailed experience of each member of our senior management team.

We believe that we will be able to rely on our dedicated and professional senior management team to lead and steer our way in further developing and refining our business strategies and business model.

3. BUSINESS MODEL

We provide integrated energy saving solutions with lighting products and lighting solutions to our customers. We possess a full range of capabilities which allows us to provide a broad range of energy saving services for lighting solutions, ranging from advising on lighting solution, product customisation, on-site inspection and measurement, product sourcing, project deployment to after sales service. Depending on our customers' specific needs and requirements, we provide either a part of such services within our range of capabilities as specified by our customers to cater their needs under our trading of lighting products business and our Consultancy Services, or we provide an entire spectrum of services, as in the provision of our leasing services.

Our services is provided to a wide range of customers such as distributors, energy service companies, property management companies, car park operators, retail operators, banks and insurance companies. Among our customers, many of them are reputable and/or multi-national companies which utilise relatively substantial amount of electricity in the properties which they manage or operate, such as office premises, shopping malls, residential properties, car parks, retail chains and restaurants etc.. During the Track Record Period, we had customers from Hong Kong, Japan, Australia, Malaysia, Singapore and other overseas regions.

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Depending on the range of services we offer to our customers, our principal business activities are categorised into three segments: (i) trading of lighting products; (ii) provision of Consultancy Services; and (iii) provision of leasing services. The key aspects of the services provided by us for each of the three business segments are set out in the table below:












	Trading of lighting products	Consultancy Services	Leasing services
Contract entered by our Group	Distribution agreement, one-off sales agreement or purchase order	Consultancy Services agreement (i.e. CS Contract)	Energy Management Contract (i.e. EMC)
Suggestion/advice on lighting products	✓	✓	✓
Customisation of lighting products	✓	✓	✓
On-site inspection and measurement	✓ (Note 1)	✓	✓
Deployment/installation of lighting products	✓ (Note 1)		✓
Provision of measurement reports, analysis, carbon emission reference and/or carbon emission audit reports		✓ (Note 2)	✓ (Note 3)
Lease/Sale of lighting products	✓	Note 4	✓
Replenishment of lighting products			✓
Training on sales and marketing techniques, including provision of documents (such as sample EMC, marketing materials, our Group's credentials and other information relating to energy saving business model)	✓	✓	
Product warranty	✓	✓ (Note 5)	✓

Notes:

- Such service is available upon our customers' request.
- Based on the information and data obtained during the site inspection, we will prepare measurements reports, pre-deployment case study and analysis and a carbon emission audit report signed by our Group's in-house certified carbon emission auditor for our customers showing the amount of savings if our suggested products are being used to replace the existing lighting products of the designated site of their end customers. These reports and analysis enable our customers to negotiate with the ultimate users or the owners of the site for entering into EMCs.
- Based on the information and data obtained during the site inspection, we will prepare measurements reports, pre-deployment case study and analysis and a copy carbon emission audit report for our customers as reference showing the amount of savings if our suggested products are being used to replace the existing lighting products.
- Our Consultancy Services do not involve selling or leasing of our lighting products to our customers or any third parties, but we will make recommendations on procurement and sourcing of lighting products from suitable suppliers. In the case if our OEM products are the selected products, we will authorise our OEMs to supply the recommended quantity of such products to our customers or their end customers directly.
- We will procure our OEMs and short-listed suppliers to provide warranty for lighting products recommended by us with the same warranty terms as those supplied to our Group.

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Set out below is an illustration of the various stages of our work, showing the typical workflow in our trading of lighting products, provision of Consultancy Services and provision of leasing services respectively:

	Responsible party		
	Trading of lighting products	Consultancy Services	Leasing services
 <div style="border: 1px solid black; padding: 5px;"> 1. Project initiation – Obtain contact information – Initiate discussion </div>	N/A	our customer	our Group
 <div style="border: 1px solid black; padding: 5px;"> 2. Sales follow up – Brief introduction of scope of leasing services – Send presentation/testimonial – Set up meeting </div>	N/A	our customer (with our assistance) (Note 1)	our Group
 <div style="border: 1px solid black; padding: 5px;"> 3. Initial sales presentation – Product demonstration – Sales presentation – Introduction of leasing services (for leasing)/ lighting products </div>	our Group	our customer (with our assistance) (Note 1)	our Group
 <div style="border: 1px solid black; padding: 5px;"> 4. Entering into CS Contract – Negotiation of terms of CS Contract – Signing of CS Contract </div>	N/A	our Group and our customer	N/A
 <div style="border: 1px solid black; padding: 5px;"> 5. Project trial run – On-site inspection and measurement – Identify deployment issues </div>	our Group (upon customer's request)	our Group (on behalf of our customer)	our Group
 <div style="border: 1px solid black; padding: 5px;"> 6. R&D customisation – Product development & customisation – Fulfill specific needs – Advice/recommendation on lighting products </div>	our Group	our Group (on behalf of our customer)	our Group
 <div style="border: 1px solid black; padding: 5px;"> 7. Client proposal & signing of leasing services contract – Energy saving proposal + carbon audit – Product recommendation – Contracting (negotiating on terms and conditions + saving sharing ratio) </div>	N/A	our customer (with our assistance) (Note 2)	our Group
 <div style="border: 1px solid black; padding: 5px;"> 8. Product sourcing – Source & order lighting products recommended by our Group and confirmed by customer </div>	our Group	our customer (with our assistance) (Note 3)	our Group
 <div style="border: 1px solid black; padding: 5px;"> 9. Project deployment – Coordinate with site manager – Identify schedule and any deployment issues </div>	our Group (upon customer's request)	our customer	our Group
 <div style="border: 1px solid black; padding: 5px;"> 10. Monthly billing – Upon deployment completion – Issue monthly invoice </div>	N/A	our customer	our Group
 <div style="border: 1px solid black; padding: 5px;"> 11. After sales services – Periodical measurement if needed – Spare stock replenishment upon request (for leasing) </div>	our Group	our customer	our Group
<div style="border: 1px solid black; padding: 5px;"> 12. Product warranty – Warranty for products </div>	our Group	our Group (with our assistance) (Note 4)	our Group

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Notes:

1. We assist our Consultancy Services customers through the provision of EMC framework, sample marketing materials, our credentials and other information relating to energy saving solutions.
2. We prepare and provide an energy saving lighting solutions proposal to our customers to assist them to prepare their proposal to their end customers. We also deliver carbon emission audit report signed by our Group's in-house certified carbon emission auditor for our customers showing the amount of savings if our proposed products are being used.
3. We will make recommendations on procurement and sourcing of lighting products from suitable suppliers. If our OEM products are the selected products, we will authorise our OEMs to supply the recommended quantity of such products to our customers or their end customers directly.
4. We will procure our OEMs and short-listed suppliers to provide warranty for lighting products recommended by us with the same warranty terms as those supplied to our Group.

The table below sets forth the revenue generated by our Group's trading of lighting products, Consultancy Services and leasing services, in absolute amounts and as a percentage of our Group's total revenue, for the period indicated:

	Year ended 31 March				Six months ended 30 September	
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Trading of:						
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Total	<u>70,843</u>	<u>100.0</u>	<u>79,935</u>	<u>100.0</u>	<u>37,847</u>	<u>100.0</u>

Note: Induction lamps include high bay lamps, flood lights and the relevant parts of such lighting products.

(1) Trading of lighting products

We possess a full range of capabilities which allows us to provide a broad range of energy saving services for lighting solutions as depicted in the first table under the paragraph headed "Business model" in this section. It is our principal business strategy to offer our full spectrum of services to our customers. However, in cases where our customers only require certain aspects of our chain of services offerings, among which include purchasing of our lighting products and do not require our full-range leasing services, we engage in trading of lighting products with those customers.

When we provide our energy saving solutions by selling our lighting products, we also provide support arrangement to our customers which may, depending each customer's specific needs and requests, include the provision of our business and technical know-how and advice on lighting products, customisation and advice on lighting products specifications and providing training on sales and marketing techniques of our lighting products, as depicted in the first table under the paragraph headed "Business model" in this section.

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Our customers for trading of lighting products are mainly overseas distributors, which may be energy service companies based in other jurisdictions or trading companies, but we also sell our lighting products occasionally to our direct sales customers. For further information of our distributors, please refer to the paragraph headed "Our distributors" in this section. We enter into distribution agreements (both exclusive and non-exclusive) with our distributors, and we enter into one-off sales contracts with our direct sales customers such as property management companies and factory operator. We mainly sell our lighting products to our direct sales customers when they prefer direct purchase, or where past electricity consumption comparable is not available.

Our support arrangement for our trading customers

To (i) assist, enable and prepare our distributors to conduct their business of promoting and selling our lighting products in their respective targeted markets; and (ii) provide energy saving lighting solutions to our direct sales customers who wish to engage our services without leasing our products for reason such as absence of past electricity consumption comparables which renders our leasing services model less appropriate or less preferable, we provide various support arrangement to selling of our lighting products to our customers. Depending on the specific needs and requests of our customers, our services to our trading customers may include any or all of the following:

- (a) advising on product specifications – we will advise our customers on suitable product specifications for the project/lighting system and make recommendations on procurement and sourcing of lighting products from suitable suppliers, including our subcontracting OEMs and our short-listed suppliers. We will also procure our OEMs and short-listed suppliers to provide warranty for lighting products recommended by us with the same warranty terms as those supplied to our Group;
- (b) R&D customisation – upon request of our customers, we will carry out research and development and design suitable lighting products for our customers, if existing lighting products are not suitable;
- (c) on-site inspection and measurement – upon request of our customers, we will carry out on-site inspection and measurement to obtain necessary information and data to prepare for lighting solutions proposal to our customers consisting of the recommended lighting products, the recommended number of lighting products, the estimated savings and the estimated amount of reduction in carbon emission;
- (d) Sales and marketing support – where required by our distributors, we will provide sales support to them on the products we sold as some of our distributors may provide services to their customers similar to our energy saving solutions. Such services include:
 - providing training on sales and marketing techniques to the staff of our distributors, such training being conducted in Hong Kong. Our distributors would come to our office from time to time to discuss with us the matters relating to their businesses in their targeted markets. We also have close contacts and frequent communications with our distributors by means of telephone discussions and email correspondences;
 - providing sample EMC framework, sample marketing materials (such as marketing brochure), our credentials and other information relating to energy saving solutions to assist our customers or their end-users in their own energy saving business. Our customers or their end-users may be authorised to make reference to our credentials as case studies when they carry out their own marketing; and
 - providing assistance to our distributors in conducting sales activities, and presenting and promoting energy saving solutions to their customers by sending personnel of our Group to their relevant markets where requested by our customers;
- (e) Upon customers' request, we provide assistance to our customers in obtaining the necessary consent, licence, permits, approvals and authorisations from the relevant government or regulatory body if required.

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Revenue contribution

During the two years ended 31 March 2014 and six months ended 30 September 2014, the revenue contribution from trading of our lighting products accounted for approximately 38.4%, 52.7% and 61.2% respectively of our Group's revenue. Our Directors expect that the revenue contribution from our trading of lighting products will continue to grow after the Track Record Period due to the increasing demand for energy saving solutions in lighting products. Our Directors consider that the increase in the demand for our Group's lighting products can be attributable to:

- (i) increased market awareness of our services and products offerings by attending international trade fairs and lighting exhibitions;
- (ii) our successful track record in providing energy saving solutions in Hong Kong;
- (iii) the credentials from our leasing services customers which are reputable and/or multi-national corporations in Hong Kong;
- (iv) our industry knowhow and capability with our energy saving lighting products, in particular our "Tube-in-Tube" Fluorescent Lamp technology;
- (v) the acceptance of energy saving solutions by our distributors and end-users; and
- (vi) the fact that our distributor's local electricity unit rate is usually higher than that of Hong Kong.

According to the information provided by our distributors, our Directors believe that a substantial portion of our products shipped to our distributors during the Track Record Period had already been sold or used in their business. Accordingly, our Directors consider that the growth of our trading of lighting products during the Track Record Period was principally a result of growing demand of our products and our customers' business plannings and requirements rather than the over-accumulation of inventories by them.

Our distributors

Our distributors principally came to know us through referrals by our existing customers or business partners. The length of our business relationship with our distributors ranged from approximately one year to three years. We engaged our first distributor (a Denmark non-exclusive distributor) in 2011, and gradually engaged other distributors and expanded our distributors network. Our Group's overseas distributors mainly include lighting company, trading companies and real estate and property management company and some of them provide energy saving solutions in their respective local markets by leasing and/or selling our Group's lighting products to their end customers. Our lighting products are sold to a wide range of end customers, including but not limited to property management company, supermarket chain operator and airport maintenance service provider, and they have been deployed in places, such as commercial buildings, retail shops, supermarkets, international airport, located in Hong Kong, Macau, Singapore, Japan, Australia, as well as other places overseas.

Our Group usually takes four months to nine months to negotiate with potential distributors before entering into agreements with them, so as to (i) let them have a thorough understanding of our energy saving solutions and let them assess their ability to promote the energy saving business in their regions before they sign any distribution agreements with our Group; and (ii) let us have sufficient time to understand the background of potential distributors and assess their capability and suitability as our distributors. For our exclusive distributors, we set a minimum purchase target which protects our return and provides certainty to the trading volume in specific regions. Generally, if our exclusive distributors during the term of the distribution agreements failed to fulfil the minimum purchase target, we have the right to appoint any other third party as our distributors for the relevant markets or we may terminate such distributorship agreement. On the other hand, most of the distribution agreements provide that if an exclusive distributor can meet the minimum purchase target, the term of the distribution agreement shall automatically be extended for a further term.

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In order for us to consider exploring suitable overseas markets, we have several criteria. The market should generally be: (a) a market with higher electricity unit rate than Hong Kong, (b) a country with high potential of retrofitting to be applied to existing lighting systems, (c) a country with higher demand in reducing energy consumption and carbon emission because of community awareness, governmental policy or private sectors initiatives; and (d) a politically and economically stable country.

A suitable distributor would be essential as our Group will be relying on our distributor to provide the necessary information as to all aspects of that overseas market, such as consumer habits, requirements of lighting products, and rules and regulations for conducting trading there. However, if a potential distributor who does not have prior business engagement in energy saving lighting industry before its appointment as our distributor, but who has the local knowledge and market information in their local market, we would still consider appointing it as our distributor. Also, we prefer but not a must that distributors to have some Hong Kong connection (such as an office or a representative or bank accounts in Hong Kong) or have some knowledge in Hong Kong's business culture as we consider that could facilitate better understanding between our distributors and us, which could enhance business relationship with our distributors.

Before we grant a distributorship to a potential distributor, we will discuss with each of them their requirements as to lighting products and obtain information about any specific regulatory compliance matters for the relevant overseas markets. Once we obtained details of their requirements, our Research and Development Department will research, develop and customise our lighting products in accordance with their specific requirements. Samples will be provided to the distributors for testing and where applicable, we will obtain necessary compliance certificates or licenses for the relevant overseas markets.

When the distributors and our Group are satisfied that the lighting products have met the necessary requirements and customisation, we will then negotiate the terms of the distributorship agreement. However, taking into account the special circumstances of each case, we may also enter into one-off sales contract or purchase order with our overseas customers.

As at the Latest Practicable Date, we have six exclusive distributorship agreements for seven countries, namely Fiji, Australia and New Zealand, Singapore, Japan, Sri Lanka and Indonesia and two non-exclusive distributorship agreements for two countries (namely Denmark and Thailand). All our overseas distributors are Independent Third Parties, out of which one is an individual and the others are corporations.

The table below shows the turnover rate of our distributors during the Track Record Period.

	Year ended 31 March						Six months ended 30 September		
	2013			2014			2014		
	No. of appointment	No. of termination	Total	No. of appointment	No. of termination	Total	No. of appointment	No. of termination	Total
Overseas distributors	2	1 ^(Note 1)	7	2	1 ^(Note 2)	8	-	-	8

Notes:

- Our Group terminated the exclusive distribution agreement with the distributor for the regions of Sri Lanka and Maldives in 2013 after the distributor had breached the terms of the exclusive distribution agreement in not ordering the agreed quantities of lighting products. Our Group has entered into another exclusive distribution agreement with another distributor in Sri Lanka in May 2013.
- The exclusive distribution agreement entered into between our Group and the distributor in Malaysia was terminated upon expiry in March 2014. Such agreement was not renewed as the distributor wanted to devote his time to other business.

It has been our Group's strategies in entering into overseas markets by appointment of distributors who have local knowledge and marketing information in their respective local markets. Our Group will continue to adopt such expansion strategies after [REDACTED]. Our Group relies on our overseas distributors (in particular the exclusive distributors) to gauge the demand of our Group's products in the respective overseas markets.

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We are currently exploring other markets and have been in negotiation with potential distributors. Please refer to the diagram showing our major footprints in the world during the Track Record Period and up to the Latest Practicable Date.



* As at the Latest Practicable Date

BUSINESS




P Worldwide Patents*

Australia | Canada | Hong Kong | India | Indonesia | New Zealand | Philippines
Russian Federation | Singapore | South Africa | South Korea | USA | Vietnam

BUSINESS

Managing potential competition between our Group and our distributors

Pursuant to the terms of the distribution agreement between our Group and our distributors, our distributors agree and undertake that within 12 to 24 months after termination of the distribution agreement, they shall not engage any party or conduct any business similar to or competing with the present business of our Group without the written consent of our Group. We believe that during the non-compete period we would be able to adequately manage the potential competition in the jurisdiction of our overseas distributors by setting up or strengthening our business in the relevant jurisdiction (either directly or by engaging a new distributor in the relevant jurisdiction), so that even if the previous distributor should carry on a competing business with different products after the expiry of the non-compete period, our Group would not be at a substantial disadvantage.

Moreover, since our trademark “” has generally been applied to the lighting products we sell to our distributors, our Group would have already been able to establish our presence in the relevant local markets of our respective overseas distributors or end customers during the term of our distributorship agreements. Under such circumstances, we believe it would be easier for us or our new distributor to establish the same level of business, market presence and reputation in the relevant jurisdiction even after the termination of the distributorship agreements, as we believe that end customers would prefer to use our products which are existing and proven products, over new products. Our Directors believe that the risk of competition between our Group and our distributors, which in turn may affect our business and financial performance, will be minimised.

Principal terms of the distributorship agreement

We have adopted a standard procedure to review and approve distributorship agreements with our distributors worldwide. However, the terms of the distributorship agreements may vary on a case-by-case basis subject to the local market situation and results of negotiation with our distributors.

The principal terms of the distributorship agreements may include:

- (a) exclusivity – our Group may grant exclusive or non-exclusive distribution rights to our distributors, and when we grant exclusive distributorship to our distributors, they are required to commit a minimum purchase target of our products;
- (b) pricing policy – there is generally no pricing policy restrictions nor pricing benchmark for our distributors to sell our lighting products in the relevant jurisdiction;
- (c) distributorship fee – we do not charge any distributorship fee;
- (d) commission policy – in general, neither our Group nor our distributors receive or pay any commission to each other;
- (e) payment terms – our Group usually requires down payment of 30% to 50% for each order placed, and for balance of payment, we usually grant 0 to 90 days credit terms to our distributors upon shipment;
- (f) minimum purchase target – our Group will set minimum purchase targets for our exclusive distributors during the term of the agreement. Other than that, we do not set any other sales target for our distributors;
- (g) defective goods – any defective goods may be returned to our Group for replacement within our warranty period, which is usually two to three years from the time of shipment;
- (h) duration – our Group usually enters into distributorship agreements with our distributors for a fixed term of two or three years, and renewal will be subject to further negotiation shortly before the expiry of the original term;

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- (i) confidentiality and knowhow – the distributors are not allowed to modify any of the lighting products of our Group or otherwise such modified products will not be protected under our warranty and they are not allowed to disclose any confidential information provided by our Group;
- (j) termination – the distributorship agreements may be terminated by our Group by serving written notice to the distributors in certain adverse situations as stated in the relevant distributorship agreements;
- (k) non-competition – it would be one of our criteria that the distributor would not be allowed to engage any party or conduct any business similar to or compete with the present business of our Group within 12 or 24 months after termination of the agreement;
- (l) obsolete stock arrangements – there is no obsolete stock arrangements between our Group and our distributors; and
- (m) use of our Group’s trade name and logo – our Group generally authorises our distributors to incorporate our Group’s trade name, our patents for “Tube-in-Tube” Fluorescent Lamp technology and our logo into their respective marketing materials to be used in their respective local markets.

Our Group does not have a sales return policy allowing our distributors to return any unsold goods to us. Thus, our distributors are not required to report their sales/inventory forecast/estimates to our Group. Our distributors can only return defective goods to us for replacement within the warranty period. During the Track Record Period and up to the Latest Practicable Date, approximately 1,000 pieces of lighting products in relation to our trading business were submitted to our Group for replacement.

Our Group cannot ascertain whether it is the industry norm to adopt a distributorship model. One of the key aspects of the distribution agreements we entered into with our distributors involve our Group providing sales support and documentations to our distributors, which assist and facilitate them in engaging their energy saving business. Moreover, our distributors are required to purchase our lighting products with no sales return policy. Our Directors believe that these key aspects would distinguish us from other general “distributorship model”.

Trading products

So far, we mainly sell our “Tube-in-Tube” Fluorescent Lamps, LEDs and induction lamps to our trading customers.

The table below sets forth the type of lighting products sold to our customers in the trading segments (including distributors and our direct sales customers), in absolute amounts and as a percentage of the total number of lighting products sold, for the period indicated:

	Year ended 31 March				Six months ended 30 September	
	2013		2014		2014	
	Number of pieces	%	Number of pieces	%	Number of pieces	%
“Tube-in-Tube” Fluorescent Lamps	202,204	97.3	264,077	95.5	105,589	91.1
Induction lamps ^{Note}	618	0.3	2,903	1.0	5,283	4.6
LEDs	4,993	2.4	9,583	3.5	5,023	4.3
Total	207,815	100.0	276,563	100.0	115,895	100.0

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The following table sets forth the average unit selling price for the lighting products offered by the Group during the Track Record Period:

	Year ended 31 March		Six months ended 30 September
	2013	2014	2014
	HK\$	HK\$	HK\$
Tube-in-Tube Fluorescent Lamps	124	126	125
Induction lamps ^{Note}	1,741	1,535	1,709
LEDs	209	449	193

Note: Induction lamps include high bay lamps, flood lights and the relevant parts of such lighting products.

Our Group is of the view that it is the distributors' obligations to comply with the relevant laws and regulations in their corresponding jurisdictions as our Group does not conduct or run any business in any overseas region where our distributors distribute the energy saving products. We sell our lighting products directly to our overseas distributors (other than our Sri Lanka distributor) on FOB (HK) basis or FOB (China) directly from our OEM manufacturers for commercial reasons. Our overseas distributors (other than our Sri Lanka distributor) are responsible for the export from Hong Kong or China, and import and custom clearance into the overseas markets. We sell our lighting products to our Sri Lanka distributor on CIF Port Colombo basis. We are responsible for export from China and our Sri Lanka distributor is responsible for import and custom clearance into Port Colombo. The title and risk of the products pass at shipping point or at port of destination. In either of the above cases, our Group is not responsible for import and custom clearance into the relevant jurisdiction of our distributors. Our Group records sales in our accounts whenever shipment is made to our overseas distributors.

Our distributors would independently conduct the business of distributing and selling the products to their own customers. It is their obligations to ensure that the laws and regulations in the corresponding jurisdictions are complied with in carrying on their business.

(2) Consultancy Services

We provide project-based Consultancy Services to our customers, which are energy saving consultancy services providers, in providing their services in their respective regions.

Our Consultancy Services is leveraging on our energy saving experience in Hong Kong, details of which are set out in the paragraph headed "Leasing services" in this section. After we have become successful in our energy saving solutions in Hong Kong where our existing leasing services customers have written letters of appreciation praising our energy saving solutions, coupled with our promotion and marketing campaigns such as attending exhibitions and writing articles in magazines, we have attracted interests from potential customers in our energy saving solutions.

As depicted in the first table under the paragraph headed "Business model" in this section, our scope of Consultancy Services includes (i) the provision of business and technical know-how principally on energy saving and installation assessment; (ii) on-site inspection and measurement on our customers' behalf at the targeted sites under their projects; (iii) customisation and advice on lighting product specifications; (iv) issuance of measurement reports, analysis and carbon emission audit report showing the amount of savings if our suggested products are being used to replace the existing lighting products of the designated site of our customers' end customers; and (v) the provision of marketing materials showing energy saving case studies, referrals and credentials. We do not provide any of such services directly to the end customers of our Consultancy Services customers.

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Our Consultancy Services do not involve selling or leasing of our lighting products to our customers or any third parties, but we will make recommendations on procurement and sourcing of lighting products from suitable suppliers including our OEMs and our short-listed suppliers. In the case if our "Tube-in-Tube" Fluorescent Lamps and/or high bay lamps are the selected products, we will authorise our OEMs to supply the recommended quantity of such products to our customers or their end customers directly. Through conducting site visits at the targeted sites under the CS Contracts and advising on product specifications, we recommend the type and quantity of lighting products required by such end customers for such sites, and no authorisation will be given to our OEMs for selling lighting products to such end customers for such type and/or quantity beyond our recommendation. In any event, our Directors believe that the end customers in the PRC will not enjoy any profitability advantage by reselling our lighting products procured from our OEMs to Hong Kong after taking into consideration of sales markup and logistic cost.

As advised by our Consultancy Services customers, their businesses generate revenue through sharing an agreed proportion of the saved electricity fee with their respective end customers in the PRC. In return for our services rendered, we will charge our Consultancy Services fees with reference to our estimation on the revenue that our customers may generate from their provision of energy saving solutions to their end customers as recommended by our reports which are prepared with consideration of the prevailing electricity charge rate in the PRC and the number of lighting products to be used. Other than our Consultancy Services fees, we do not share any portion of the revenue to be generated by our Consultancy Services customers from their end customers.

In order to minimise possible competition with our Group's energy saving solutions in Hong Kong and the risk of our lighting products becoming available in the retail market in Hong Kong through legitimate or illegitimate channels, we do not sell our lighting products to potential customers in the PRC, and the end customers of our Consultancy Services customers can only purchase our Group's lighting products through our Consultancy Services customers with our authorisation given to our OEMs in our recommended quantity. Instead, we only offer the Consultancy Services to our customers who are engaged in or are developing their own energy saving businesses in regions of China where they have or are developing their customer bases. Up to the Latest Practicable Date, we had provided Consultancy Services to two customers for projects located in Guangzhou, Shantou, Zhongshan, Shenyang and Zhuhai, the PRC.

Our two Consultancy Services customers are energy saving consultancy services providers. During the Track Record Period, we had certain business relationship with the associates of one of our Consultancy Services customers, Well Spread. For further information relating to the relationship between our Group and the associates of Well Spread, please refer to the section headed "Relationship with Well Spread" in this [REDACTED].

We entered into four contracts, two contracts and nil contract with Well Spread for the financial years ended 31 March 2013, 2014 and for the six months ended 30 September 2014 respectively. During the Track Record Period, CS Contracts which amounted to approximately HK\$62.8 million in aggregate were entered into between our Group and Well Spread for various sites in Guangzhou, Zhongshan, Shantou and Shenyang, the PRC. In addition, after the Track Record Period and up to the Latest Practicable Date, we have a confirmed order of contract sum of HK\$9.5 million from Well Spread with expected deployment in certain sites in Zhongshan, the PRC.

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The other customer for our Consultancy Services ("Customer F") is a Macau based company which is principally engaged in the provision of electrical and mechanical engineering services and energy saving consultancy services, and an Independent Third Party. It was established in Macau in 2003 with around 30-40 staff. To the best knowledge of our Directors, it was wholly beneficially owned by an individual, an Independent Third Party who has over 25 years of experience in electrical and mechanical engineering in Macau and the PRC, and became acquainted with our Group in around 2013 through a leasing services customer of our Macau joint venture partner. As advised by Customer F, its end customers for our Consultancy Services are mainly factories and education institutions located in the PRC, and the number of Tube-in-Tube Florescent Lamps involved in each relevant contract between Customer F and its end customer ranged from around 10,000 to 20,000. Our Directors confirmed that they were not aware of Customer F having any past or present relationship (including without limitation business, family, trust, employment relationships or otherwise) with our Company, our subsidiaries, our Shareholders, directors and senior management or any of their respective associates. As advised by Customer F, it does not have any relationship with Well Spread. During the Track Record Period, we only entered into one CS Contract with Customer F during the six months ended 30 September 2014 which amounted to approximately HK\$10.5 million for various sites (including factories and education institutions) in Zhuhai, the PRC.

Having considered, among others, that (i) the existing lighting equipment used by the targeted end customers of our Consultancy Services customers in the PRC are mainly non-energy efficient lighting products; (ii) the electricity charge rate in the PRC is not lower than that in Hong Kong; and (iii) based on our on-site inspection and measurement at and our energy saving analysis regarding our customers' targeted sites under their projects, we fully understand the revenue and profit potential for such projects, our Directors believe that our Consultancy Services customers will have a sustainable and profitable business of leasing services in the PRC by applying our established, proven business model of provision of leasing services in Hong Kong as recommended by our Group.

Our Group generally took four to five weeks' time to complete the CS Contracts. As at the Latest Practicable Date, all of the aggregate Consultancy Services income for the Track Record Period of approximately HK\$73.4 million was settled. Our Directors believe that given (i) the continuous and stable business relationship between our Group and Well Spread, and the continuing payment pattern and past settlement record of this particular customer, and (ii) the due diligence on and site visits at the offices of Customer F and the size of its end customers, there is no recoverability problem of the receivables.

Our Group's Consultancy Services was not provided regularly during the Track Record Period. The main reason for this was that the lead time for securing the end customers to commencement of billings or for completion of the sale and purchase of the lighting products usually takes around seven to nine months according to our Group's experience. Our Directors are of the opinion that as our customers gain experience on providing energy saving solutions, its lead time for securing end customers are expected to be shortened in the future.

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Since any potential customer of our Consultancy Services, who may become interested in our energy saving business, may become our competitors, we have several selection criteria for our Consultancy Services customers and we have imposed certain contractual restrictions which minimise the chances of competition, if any. Firstly, the targeted markets of our Consultancy Services customers should not be in a market where our Group has presence or plan to expand our business into the near future or where we already have exclusive distributors. At the time when our Group first provided Consultancy Services to Well Spread, our first Consultancy Services customer, although we did not then have our own PRC presence, we had the intention to expand our business into the PRC. We believe that the market potential in the PRC is huge, hence, we entered into CS Contract with our second Consultancy Services customer in August 2014 so long as our Consultancy Services customer agrees to be bound by the contractual restrictions as set out in the CS Contracts, whereby we consider the risk of competition between our Group and our Consultancy Services customers and/or among our Consultancy Services customers would be minimised. Thus, our Group was willing to provide Consultancy Services to customers who intended to enter into the PRC market.

Pursuant to the terms of the CS Contracts, our customers have to agree and undertake that during and within a period of five years upon signing of the CS Contracts, they shall not, without engaging us as their consultant or business partner, enter into, or offer similar consultancy services that may compete with our Group. The non-competition covenants given by any Consultancy Services customer to our Group in respect of similar business and competing similar consultancy services refer to (a) provision of consultancy services that are similar to the consultancy services provided by our Group to it, its end customers in the PRC, and other customers of our Group in the PRC, primarily relating to energy efficient lighting system and energy management consulting solution services; (b) provision of energy efficient lighting systems and energy management consulting solutions; and (c) other activities that may compete with the above businesses, using the confidential information obtained from our Group in the course of provision of the Consultancy Services by our Group to our Consultancy Services customer and its end customers in the PRC.

Our Directors are optimistic and believe that our Consultancy Services customers would continue to enter into further CS Contracts with us in the future for the following reasons:

- (1) We believe that our Consultancy Services customers have confidence in our Group's track records and credential gained mainly in Hong Kong. As an early energy savings services provider in Hong Kong, we have 104 EMCs on hand as at 30 September 2014. Our leasing services customers include reputable and/or multi-national corporations in Hong Kong, including a supermarket chain, a major car park operator, major building management companies and other well-known companies. According to our experiences in dealing with these leasing services customers, they require not only quality products but also quality services and they have been prudent in choosing their suppliers. We have gained the trust of our leasing services customers and many of them have endorsed our products and services provided. Our successful track records in being able to serve these large-sized corporations in Hong Kong, building a long-term business relationship with them and gaining their endorsements are self-explanatory, which give confidence to our Consultancy Services customers as well as their end customers in the PRC;
- (2) Our Group's expertise and know-how in the provision of energy saving solutions enables our Consultancy Services customers to rely on our existing resources and capabilities in assisting them in the provision of energy saving lighting solutions to their own customers. The Consultancy Services we provide to our customers include provision of EMC framework, sample marketing materials, our credentials and other information relating to energy saving solutions. Moreover, we also assist and on our customers' behalf carry out the Project Trial Run stage (including provisions of measurement reports, analysis and carbon emission audit reports) and the R&D Customisation stage for their energy saving solutions which are

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generally project-oriented and require certain level of skills and technical knowledge of lighting products. Our services and our EMC documents are the guidebook to our Consultancy Services customers to enable them to carry out the other stages of their own energy saving solutions. Details of our services provided under our Consultancy Services are set out above in this section. We believe that having engaged our Consultancy Services, our Consultancy Services customers do not have to maintain a full team of staff in-house to compile and update marketing materials, except for profile of their own customers or conduct researches as to updated information relating to energy saving solutions, or to keep a team of technical and qualified personnel and the relevant equipment to carry out the Project Trial Run stage and R&D Customisation stage;

- (3) Our Consultancy Services customers have agreed to the non-competition covenants as contained in the CS Contracts. As mentioned above, according to the terms of the CS Contracts, within a period of five years upon signing of the CS Contracts, our Consultancy Services customers shall not enter into or offer similar consultancy services that may compete with our Group. They can only enter into or offer similar consultancy services by entering into further CS Contracts with our Group. We believe our customers' willingness to be bound by the non-competition covenants could be demonstrated by their entering into of the CS Contracts with our Group during the Track Record Period; and
- (4) Our Consultancy Services customers are not able to source our Synergy-branded lighting products, including our "Tube-in-Tube" Fluorescent Lamps, without our authorisation. Although the patent of the "Tube-in-Tube" Fluorescent Lamp technology in the PRC has expired and falls into the public domain, it does not mean our Synergy-branded products can be sourced without our authorisation. With our continued efforts in research and development, our Synergy-branded lighting products have been upgraded and there have been improved technical specifications for the latest generation of our Synergy-branded lighting products which make it more competitive than the previous generations. With the confidentiality agreements entered into between us and our OEMs, our Consultancy Services customers would only be able to source our Synergy-branded lighting products with our authorisation for purchase related to the CS Contracts.

Our customers for Consultancy Services and their end customers may not have experience in energy saving lighting business, but the customers for Consultancy Services should have general knowledge as to the energy saving lighting business of its targeted markets. Our Consultancy Services assist and facilitate our Consultancy Services customers to enter into the energy saving business, by way of provision of leasing services by them in their targeted markets.

During the Track Record Period, our Group did not provide our leasing services by entering into EMC directly with customers in the PRC, as we were concerned about the credit risk in the PRC, collectability of monthly fee under the EMC, long lead time to study and implement appropriate strategies suitable for new regions, as well as the intensive upfront investment if we were to offer leasing services in the PRC. Having considered the above, we established our market presence and growth potential in certain regions in the PRC through the provision of Consultancy Services, which our Directors believe was a more efficient and cost effective way to enter the PRC market, as we can leverage on the established client network and local market knowledge of our Consultancy Services customers without having to incur the intensive initial capital cost.

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In future, in case if we are to expand our leasing services to the PRC, our Directors consider that there will not be any material competition between us and our Consultancy Services customers for the following reasons. First, our Consultancy Services customers are contractually bound by the non-competition covenants under the CS Contracts, pursuant to which they have undertaken for a period of five years from signing of the CS Contracts that they shall not, without engaging us as their consultant or business partner, enter into or offer similar consultancy services that may compete with our Group. Moreover, we believe that, with our proven track record, reputation, our established business model in providing customised and integrated energy saving solutions which is well recognised by our customers, our strong research and development capabilities and our own Synergy-branded lighting products, we will be able to maintain a competitive edge over our Consultancy Services customers and other potential competitors in the PRC market. Further, as supported by the Ipsos Report, the ESCO industry in the PRC is still in an early stage of development and is rapidly growing, and its market potential is huge. As such, our Directors believe that potential competition will not be material.

Set out in the chart under the paragraph headed "Business model" in this section is an illustration of the various stages of our work in our provision of Consultancy Services, and our roles involved and assistance provided to our customers in their provision of energy saving solutions to their end customers.

During the Track Record Period, our Consultancy Services provided to our customers were project-based. We provide Consultancy Services including:

- (a) on-site inspection and measurement for carrying out energy saving solutions at the targeted sites under the project – our project managers and engineers attend the target sites and carry out inspections and measurements (which form part of the Project Trial Run Stage);
- (b) research and development – we will carry out research and development and design suitable lighting products for the project, if existing lighting products are not suitable (which form part of R&D Customisation Stage);
- (c) advising on product specifications – we will advise our customers on suitable product specifications for the project and make recommendations on procurement and sourcing of lighting products from suitable suppliers, including our subcontracting OEMs and our short-listed suppliers. If our Synergy-branded lighting products are the recommended products and after our customers have confirmed using the recommended products, we will provide purchase order template to our customers and authorise our OEMs to supply the recommended quantity of such products to our customers or their specific end-users. We will also procure our OEMs and short-listed suppliers to provide warranty for lighting products recommended by us with the same warranty terms as those supplied to our Group;
- (d) provision of measurement reports, analysis and carbon emission audit report – based on the information and data obtained during the site inspection, we will prepare measurements reports, pre-deployment case study and analysis and a carbon emission audit report for our customers. These reports and analysis include the suggested solutions to our customers, consisting of the recommended lighting products, the recommended number of lighting products, the estimated savings, and carbon emission audit report. These reports and analysis enable our customers to negotiate with the ultimate users or the owners of the site for entering into EMCs; and
- (e) provision of EMC documents – we will provide sample EMC framework, sample marketing materials (including the awards given to our Group and our lighting products introduction marketing brochure), our credentials and other information relating to energy saving solutions to enable our customers to start their own energy saving business for the project. Our customers are authorised to make reference to our credentials as case studies when they carry out their own marketing. If required by our customers, we will also provide training on sales and marketing techniques (both for energy saving solutions or wholesale) to their staff. Such training is conducted in Hong Kong.

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Our Consultancy Services are principally provided to our customers by our project management team comprising three members, which is led by one of our executive Directors, Mr. Arthur Lam, and they are assisted by other staff of our Group as and when required.

Principal terms of the CS Contracts

The terms of our CS Contracts may vary on a case-by-case basis subject to our negotiation with the customers and the local market situation.

During the Track Record Period, the seven CS Contracts were on normal commercial terms reached after arm's length negotiations between our customers and our Group, and were entered into in Hong Kong and have the same major commercial terms as follows:

- (a) all deliverables and services (including but not limited to recommendations as to which lighting products should be used for the project (such as product design and product specification recommendations), on-site inspection and measurement, EMC documents, and measurement reports, analysis and carbon emission audit report, etc.) will be delivered and provided within 45 to 60 days;
- (b) our customers shall pay to our Group the agreed consultancy fee in Hong Kong dollars within a period ranging from 150 days to 180 days after all deliverables and services are delivered and provided, and be responsible for all project related disbursements; revenue is being recognised when the service is rendered;
- (c) except in the case of death or personal injury caused by the negligence of our Group, the liability of our Group under the contract shall not exceed 25% of the contract sum paid by our customer to our Group under the contract;
- (d) all information and documentations our Group provides to our customers under the contract are confidential. Other than entering into new CS Contract with our Group, our customers are prohibited from entering into similar business or offering similar Consultancy Services within 5 years upon signing of the contract;
- (e) all information acquired by our Group with respect to the business or affairs of our customers under the contract is confidential, and we shall only use such confidential information for the purpose of performing the service under the contract; and
- (f) the contract is governed by and construed in accordance with Hong Kong laws.

A credit period ranging from 150 days to 180 days was agreed under the CS Contracts after arm's length negotiations with our customers. We consider that such credit period granted to our customers will enable and encourage our customers to promote the energy saving solutions in their targeted markets. Our Consultancy Services customers are generally required to invest and pay for lighting products at the commencement of a project. With such credit period, our customers will be able to commence the relevant project at a relatively low start-up costs. We believe such credit policy provides an incentive for our customers to enter into the CS Contracts with us. On the other hand, our direct cost of Consultancy Services mainly include staff salaries and research costs which are not significant to our Group, we consider this credit policy will not have adverse effect on our cashflow. Under the CS Contracts entered into during the Track Record Period, no sales rebate or other benefit was received by our customers from our Group in return for our Group's services.

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During the Track Record Period, we provided our Consultancy Services to our customers in Hong Kong, except the on-site inspection and measurement, which were carried out at the respective sites (which include factories, public transportation station, residential buildings, commercial buildings, retail shops and education institutions) in Guangzhou, Zhongshan, Shantou, Zhuhai and Shenyang, the PRC. According to the information provided by our customers and so far as our Directors are aware, their customers are mainly private companies and principally engaged in, amongst others, manufacturing, property development, property management and retail businesses, while two end customers are education institutions. Each on-site inspection and measurement at the respective sites during the Track Record Period conducted by our project managers and engineers would not take more than seven days as provided under the CS Contracts.

Pursuant to Article 5 of the Arrangement between the Mainland and Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income (內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排), the term "Standing Body (常設機構)" in Paragraph 3 of the Article also includes an enterprise which provides services directly or through employees or other employed personnel on the other side for the same project or related projects including Consultancy Services for more than 183 days continuously or in aggregate in any twelve months period. Accordingly, if an enterprise is regarded as establishing a Standing Body (常設機構) in the PRC, it will be subject to PRC enterprise income tax.

Pursuant to Article 3 of the Law of PRC Enterprise Income Tax, where the non-resident enterprise that has not set up institutions or establishments in China, or where institutions or establishments are set up but there is no actual relationship with the income obtained by the institutions or establishments set up by such enterprises, they shall still pay enterprise income tax in relation to the income originating from China. Pursuant to Article 7 of the Implementation of Enterprise Income Tax Law of the PRC, the incomes from Chinese territory and foreign territory which are indicated in Article 3 of the Enterprise Income Tax Law shall be recognised in accordance with the following principle set out therein, namely the incomes from providing labour services shall be recognised with reference to places where the services were provided.

According to our PRC legal advisers, we are not liable to pay any PRC enterprise income tax for the 13 CS Contracts with our customers because our Group provides on-site inspection and measurement in the PRC during the Track Record Period, which shall be regarded as the affiliate part to the Consultancy Services for our customers and which shall not be recognised as the labor services provided through our staff directly in the PRC for a continuous period of, or for periods in aggregate of, more than 183 days. Hence, (i) our Group shall not be regarded as establishing a Standing Body in the PRC; and (ii) the income obtained by our Group for providing the Consultancy Services to our customers outside the PRC, including the service provided by our Group's Hong Kong based certified auditor for a carbon emission audit report and analysis, shall not be recognised as income in the PRC. Therefore, our Group is not subject to the PRC enterprise income tax.

(3) Leasing services

In addition to our trading business and our Consultancy Services business, we provide our energy saving solutions services by leasing our lighting products to our customers. As illustrated in the flow chart set out under the paragraph headed "Business model" in this section, our leasing services comprises a full range of services along the business value chain from advising on lighting solution, product customisation, on-site inspection and measurement, product sourcing, project deployment to after sales service.

BUSINESS

Our customers in this business segment are mainly end-users of energy saving solutions, among which many of them are reputable and/or multi-national companies in Hong Kong, such as property management companies, car park operators, retail operators, banks and insurance companies, which utilise relatively substantial amount of electricity in the properties which they manage or operate, such as office premises, shopping malls, residential properties, car parks, retail chains and restaurants, etc..

In our leasing services, we lease our lighting products to our customers with the objective to achieve significant electricity consumption savings for our customers. Before we enter into the EMCs with our customers, we provide energy saving assessment to our customers. We assist and devise for our customers an energy saving lighting system and provide retrofit lighting product replacements for our customers with generally free installation. We guarantee the saving performance of our lighting solutions, based on the pre-determined saving proposals to our customers, and they are entitled to early terminate the EMCs without any penalty payable to us if the saving performance cannot be achieved.

Our leasing services generally enables our customers to:

- (a) retrofit their existing lighting systems to more efficient energy saving lighting system without incurring any upfront investment, and it is a "zero cost energy saving" solution to our customers;
- (b) have certainty on the continuous supply of our lighting products with minimal maintenance costs during the terms of the EMCs; and
- (c) have certainty on the amount charged by our Group during the term of the EMCs as the fixed monthly leasing fees charged by us are pre-determined at the time when our customers entered into contracts with us. The pre-determined fixed monthly leasing fees represent a portion of the savings on our customers' electricity charges after retrofitting their existing lighting systems with our proposed lighting systems.

According to the experiences in serving our customers, our Directors believe that our leasing services customers prefer leasing services to direct purchase of our lighting products because of the following reasons:

- (a) our leasing services is a "zero cost energy saving" solution to our leasing services customers, which they do not require to incur any upfront investment for replacing their existing lighting system with our energy saving lighting products, whereas our direct purchase customers have to bear not only the costs of our energy saving lighting products, but may also have to bear the costs of retrofitting or replacing their lighting fixtures;
- (b) our leasing services customers are only required to pay fixed monthly leasing fee (which represents a portion of the savings on our customers' electricity charges) to us during the term of the EMC calculated based on the formula agreed with our leasing services customers on the deployment date instead of paying the entire costs of all the lighting products if they choose to purchase. In addition, payment of the fixed monthly leasing fee is spread over the entire term of the EMC, which generally last for three years, whereas we generally only provide a credit period of 30 days to our direct purchase customers for settling the purchase price of the lighting products;
- (c) at the request of our leasing services customers, we provide on-site performance review regarding brightness and the energy saving performance of our lighting products, provided that such performance review generally shall not be carried out more than once in any twelve months' period; and
- (d) we also provide a small percentage of spare lighting products to our leasing services customers for their timely replacement when any of our lighting products are spent during the term of the EMC. For direct purchase customers, we will only deliver the exact number of lighting products as per the purchase orders although these lighting products will be covered by our standard warranties.

BUSINESS

Under our EMCs, we generally lease lighting products to our customers and our customers pay the pre-determined fixed monthly leasing fees to our Group during the term of the EMC. The ownership of the energy saving lighting products provided under the terms of the EMC generally remains with our Group. However, in limited cases subject to negotiation, ownership of lighting products may be transferred to our customers upon the end of term of the EMC.

We adopt a proactive approach in our provision of leasing services. The flow chart set out under the paragraph headed "Business model" in this section depicts, among other matters, the leasing services business model of our Group. The detailed description of each stages of our workflow is as follows:

Project Initiation

Currently, our target customers are corporations with the following characteristics:

- (a) its business should be recognisable;
- (b) its business should be stable with steady growth;
- (c) the operating hours of the premises owned or managed by the customer should be at least 8 hours per day and 22 days per month;
- (d) the existing lighting equipment mainly used by the customer should be T8/T10/T12 fluorescent tubes, MR16 spot lights, high bay lamps with metal halide or high pressure sodium light bulbs. These existing lighting systems are commonly used in Hong Kong commercial sector; and
- (e) preferably, the customer is in the industries of real estate, property management, commercial retail, multi-national corporation office, car parks, warehouse logistics and manufacturing.

Our senior management and sales team proactively identify our target customers in Hong Kong. Once a potential customer is identified, a designated personnel will be assigned to initiate discussion with the potential customer.

Our sales and marketing team also identify potential customers through referrals from existing customers, visitors to our booth in trade fairs and those who learned about our energy saving solutions and services from various marketing channels. We have adopted an internal standard for our sales and marketing team to introduce our energy saving solutions and the strength of our products to our customers.

Sales Follow Up

The responsible sales staff follows up with the potential customers and introduces our Group's retrofit energy saving solutions and our leasing services to them by sending to them relevant presentation and/or existing customers' testimonials for their reference. The responsible sales staff will then set up meeting with our potential customers.

Initial Sales Presentation

At the first meeting, we obtain information and requirement of the existing lighting system from our customers. We also conduct demonstration of our products with the aid of a calibrated power analyser and hand-held power metre. The demonstration generally shows an increase in brightness and a decrease in energy consumption by installing our lighting products as compared to the customer's existing lighting system. Our leasing services is also introduced to the customers at this meeting, together with case studies and job references.

BUSINESS

Trial run and R&D Customisation

Subsequent to the acceptance of our preliminary proposal, an on-site trial run will be arranged by us. We will install sample of our proposed lighting products at the designated site of the customer to enable the customer to have a real-time comparison of the difference between its existing lighting system and our products. Given at the time of trial run, the only electrical products changed are the lighting products, any changes in the electricity consumption would be the direct result from the use of our products.

The trial run is also for obtaining on-site data, such as power consumption and luminosity, of the customer's existing lighting system and the suggested lighting products to be provided by our Group. During the trial run, a calibrated power analyser and hand-held power metre will be used to record the power consumption of the existing lighting system and our proposed lighting system. With the on-site data of the customer's existing lighting system, and any specific request of our customer (such as the luminosity of the site and the colour temperature of the lighting products) after having the trial run, we will update and decide whether the lighting solution devised for the customer is the most suitable in the circumstances.

The data obtained from the trial run (in particular the difference in power consumption between our customer's existing lighting system and the proposed lighting system) will be used as the basis for determining our leasing fee. Please refer to the sub-paragraph headed "Fixed monthly leasing fee" below for details of how our leasing fee is determined. According to our internal trial run procedure, the trial run will generally take approximately 3 hours.

Customer Proposal

After understanding the customer's needs and requirements of the lighting system, the responsible staff will prepare a preliminary energy saving proposal. The preliminary proposal includes the suggested lighting products and the quantity to be deployed, the predicted savings in electricity consumption after deployment, and the proposed savings split between the customers and our Group.

Taking into consideration of the customer's business nature and its needs, we will devise a suitable lighting solution for the customer by using different combination of lighting products, including "Tube-in-Tube" Fluorescent Lamps, LED products, induction lamps, etc. to maximise savings on electricity charges.

Signing of EMC

The negotiations between our customers and our Group are largely on the term of the EMC and the sharing ratio on the savings on electricity charges after switching to our lighting products. The standard terms and conditions for our EMC include the following:

- (a) we will deliver and install our lighting products within an agreed period ranging from 21 to 30 working days after the date of the contract with our customer or such other date as may be agreed between our customer and our Group;
- (b) our customer shall keep the deployed lighting products (including spare lighting products) in good repair condition and working order, and be responsible for safekeeping of all deployed lighting products (including spare and malfunctioned lighting products);

BUSINESS

- (c) our customer shall pay to our Group the agreed fixed monthly leasing fee, which shall not be adjusted unless (i) where the actual total energy saving per month is substantially less than the estimated total energy saving saving per month as set out in the EMC, in which case, failing remedial actions, we shall determine such shortfall and adjust downward the monthly leasing fee accordingly; and (ii) in the event that the effective electricity unit rate actually charged under the electricity bill is increased or decreased by more than 5% when compared to the electricity unit rate at the time of entering into the EMC, the fixed monthly leasing fee will be adjusted correspondingly. If the saving performance cannot be achieved after the failure of our remedial actions, our customers are entitled to early terminate the EMC without any penalty payable to us;
- (d) subject to negotiation of the terms of the EMC, the EMC shall be automatically renewed on a monthly basis upon expiry unless written notification of termination is given by the parties;
- (e) our Group shall have the right to terminate the EMC by giving one month's notice to the customer if the leasing fees or any amount due and payable to our Group shall remain unpaid for 60 days or the customer endangers the rights or property of our Group;
- (f) the customer can only terminate the EMC before the expiry of the EMC by giving not less than three month's notice to our Group, subject to an early termination payment payable by the customer;
- (g) upon termination of the EMC, our Group shall generally be entitled to remove and re-possess the lighting products installed at the premises of the customer (including spare and malfunctioned lighting products), but in limited cases subject to negotiation of the terms of the EMC, ownership of lighting products may also be transferred to our customers upon the end of term of the EMC; and
- (h) the liability of our Group under the EMC shall not exceed the amounts paid by the customer to our Group under the EMC.

Project Deployment

In general, it takes about two to three weeks from commencement of deployment to completion of installation of our lighting products. At the request of our customers, our deployment work is sometimes carried out after office hours to minimise the business disruption caused by our deployment work to our customers.

We are generally responsible for the installation cost, but subject to negotiation of terms, our customer may also share our cost of supply and installation of lighting products. The installation costs for leasing services amounted to approximately HK\$761,000, HK\$196,000 and HK\$31,000 for the two years ended 31 March 2013 and 2014 and for the six months ended 30 September 2014. We subcontract the installation of the lighting system for our customers to our deployment subcontractors. As at the Latest Practicable Date, we have short-listed three deployment subcontractors with reference to their experience, capability in terms of manpower and time in undertaking our deployment projects. Each of them has to employ and assign Grade A qualified electrical workers registered with the Electrical and Mechanical Services Department for carrying out the deployment work of our Group. Our Group is responsible for the relevant contractors' all risk insurance for our deployment subcontractors while they are working for our Group.

BUSINESS

We have issued subcontractor deployment guideline and deployment plan to our deployment subcontractors to ensure the quality of their service. Our staff from our project management team also conduct site walks with our subcontractors to discuss the deployment plan and any deployment issue.

Commencement of Monthly Billing

After the deployment, our customer and us will jointly conduct a site inspection to confirm the total number of lighting products deployed and whether the installation of the products is to the satisfaction of our customer. We then issue a commencement of billing form or deployment confirmation to the customer for confirmation.

During the Track Record Period and up to the Latest Practicable Date, the lead time for securing an EMC from the Project Initiation stage to the Commencement of Monthly Billing stage was generally three to five months.

Fixed monthly leasing fee

During the term of the EMC, our leasing fee is charged on a monthly basis. It is a pre-determined amount agreed between our customers and our Group at the time of entering into the EMC. The amount of leasing fee is determined and agreed with reference to (a) the estimated savings from the electricity charges payable by our customers assuming they have enrolled with our leasing services as compared with their existing electricity charges as shown in their latest electricity bills before entering into the EMC; (b) the data (in particular the energy consumption for the lighting products and the operation time of the lighting system) obtained from the trial run at the sites of the customers; and (c) the sharing ratio (i.e. the split) agreed between our customers and our Group.

Energy consumption in electricity bill is measured in the units of kWh. The monthly energy consumption cost (i.e. electricity charges) of lighting products can be calculated by the following equation:

$$\text{Power consumption per hour (kWh)} \times \text{Operation time (hour per day)} \times \text{Operation days per month} \times \text{Electricity unit rate (\$/kWh)}$$

During the life span of a lighting product, its power consumption (i.e. wattage) shall remain largely the same. Hence, with reference to the difference in the power consumption of our customers' existing lighting system and our lighting system as obtained from the trial run, our Group and our customers are able to determine or calculate the savings after their existing lighting system is replaced by our lighting system.

Assuming a customer in Hong Kong Island is using a lighting system with 500 pieces of T8 fluorescent tubes which operates 18 hours a day and 30 days a month, the estimated savings from the electricity charges for such a customer after replacing the existing lighting system by our lighting system using "Tube-in-Tube" Fluorescent Lamps could be over 50% of the original electricity fee per month (before deduction of the fixed monthly leasing fee payable to our Group provided under the EMC) while enjoying brighter luminosity output. Once the estimated monthly savings is determined, our Group will negotiate with the customer on the sharing ratio. Depending on the term of the EMC, our Group will generally share 50% to 70% of the estimated monthly savings.

BUSINESS

For illustration purpose only, the estimated monthly savings generated from the replacement of existing lighting system for such a customer and our revenue are as follows:

	4' T8 fluorescent tube	4' "Tube-in-Tube" Fluorescent Lamp	Monthly Saving
Power consumption per tube (Watt)	48	22	26
Power consumption per tube (Kilo Watt)	0.048	0.022	0.026
Usage per day of 18 hours	18	18	18
Usage per month (30 days)	30	30	30
Electricity rate (HK\$ per kWh)	1.28	1.28	1.28
Total \$ savings per tube per month	0.026kWh x 18 hours x 30 days x HK\$1.28		17.97
Estimated number of tubes			500
Total savings per month (HK\$)			8,985.60
Revenue generated to our Group (at a sharing ratio of 70/30 (70% our Group: 30% customer))		Our Group: 70% x 8,985.60	6,289.92

Total saving on electricity bill upon deployment formula

As we share the savings from their electricity charges with our customers, our leasing fee represents only part of the electricity charges our customers could save from the reduced energy consumption under our leasing services. The sharing ratio (i.e. the split) between our customers and our Group is determined and agreed on a case by case basis, which depends on a number of factors such as the operating hours of the lighting system and the amount of savings generated from the reduction of energy consumption and the scale of the project. Once agreed, our customers pay a fixed monthly amount for the whole term of the contract. Such pre-determined fixed monthly leasing fee will only be adjusted in the event that (i) the actual total energy saving per month is substantially less than the estimated total as set out in the EMC, in which case, failing remedial actions, we shall determine such shortfall and adjust downward the fixed monthly leasing fee accordingly; and (ii) the effective electricity unit rate actually charged in the electricity bill is increased or decreased by more than 5% when compared to the electricity unit rate at the time of entering into the EMC, in which case the fixed monthly leasing fee will be adjusted correspondingly. During the Track Record Period and up to the Latest Practicable Date, no triggering event has occurred that required our Group to make an adjustment to the pre-determined fixed monthly leasing fee.

Taking into consideration of customer's needs and requirements, we will devise suitable lighting solutions for the customer by using different combination of lighting products and generally with minimum modifications to the existing fixtures of the customer. The lighting products offered to our customers through our leasing services include our "Tube-in-Tube" Fluorescent Lamps and/or other lighting products which include LEDs and induction lamps, which consume less power (i.e. wattage) than their existing lighting systems which generally use traditional fluorescent tubes and spot lights.

BUSINESS

The table below sets forth the types of lighting products newly deployed during the Track Record Period for our Group's leasing services, in absolute quantity and as a percentage of the total number of lighting products newly deployed for the period indicated:

	Year ended 31 March				Six months ended 30 September	
	2013		2014		2014	
	Number of pieces newly deployed	%	Number of pieces newly deployed	%	Number of pieces newly deployed	%
"Tube-in-Tube" Fluorescent Lamps	9,937	50.6	5,016	54.0	992	59.6
LEDs	9,005	45.8	4,250	45.8	673	40.4
Induction lamps	708	3.6	15	0.2	—	—
Total	<u>19,650</u>	<u>100.0</u>	<u>9,281</u>	<u>100.0</u>	<u>1,665</u>	<u>100.0</u>

The table below sets forth the aggregate number of lighting products utilised under our EMCs on hand as at 31 March 2013, 31 March 2014 and 30 September 2014:

	As at 31 March				As at 30 September	
	2013		2014		2014	
	Number of pieces utilised	%	Number of pieces utilised	%	Number of pieces utilised	%
"Tube-in-Tube" Fluorescent Lamps	108,596	86.4	98,560	85.0	88,018	83.0
LEDs	15,484	12.3	15,818	13.6	16,491	15.5
Induction lamps	1,614	1.3	1,629	1.4	1,629	1.5
	<u>125,694</u>	<u>100.0</u>	<u>116,007</u>	<u>100.0</u>	<u>106,138</u>	<u>100.0</u>

During the Track Record Period, the number of lighting products newly deployed for our leasing business decreased from 19,650 for the year ended 31 March 2013 to 9,281 for the year ended 31 March 2014 and to 1,665 for the six months ended 30 September 2014. The decrease was primarily because (i) save for replacement lighting products delivered to our customers upon their return of the damaged or spent lighting products, renewed contracts did not generally require re-deployment of lighting products; (ii) there was a decrease in the number of our new EMCs during the Track Record Period; and (iii) the average number of newly deployed lighting products in our new EMCs recorded a decrease during the Track Record Period.

Our Directors consider that such decrease in the number of lighting products newly deployed was not an indication of the limited growth potential of our leasing business, but only a result of the shifting of our focus to the development of our overseas market during the Track Record Period. As a result of such shift of our business focus, the aggregate number of lighting products utilised under our EMCs on hand slightly decreased by approximately 7.7% from 125,694 as at 31 March 2013 to 116,007 as at 31 March 2014 and further decreased by approximately 8.5% to 106,138 as at 30 September 2014. With [REDACTED], we intend to dedicate more resources on the expansion of our leasing services business in Hong Kong. Details of our future plans regarding such expansion are set out in the section headed "Business objectives and future plans" in this [REDACTED].

BUSINESS

Our leasing services generally include the following features:

- (a) Retrofit lighting products are provided to our customer free of charge and all the initial installation costs are borne by our Group, but subject to negotiation of terms, our customer may also share our cost of supply and installation of lighting products. We also provide a small percentage of spare lighting products to our customers for their timely replacement in the case when any of our lighting products are spent during the term of the EMC.
- (b) During the term of the EMC, upon notification from our customers, we will provide and deliver such number of lighting products to our customers upon their return of the corresponding number of spent lighting products (i.e. exchange).
- (c) It is generally not necessary to and we are not obligated under the EMC to monitor the performance of our lighting products. However, if requested by our customers, we shall carry out on-site performance review to verify the energy saving performance of our lighting products installed in the customer's premises. If such review reveals that the power consumption (in wattage) of the relevant lighting products is 10% or more than the promised power consumption as stipulated in the EMC, we shall take remedial action to fulfill the committed energy saving, failing which our customer is entitled to terminate the EMC without penalty payable to us. During the Track Record Period, none of the performance reviews conducted has shown unfavourable results which would require us to make any adjustment to the pre-determined fixed monthly leasing fee.
- (d) We sometimes provide free portable power meter to our customers to facilitate on-site power consumption monitoring.
- (e) We provide saving guarantee to our customers by having a fee adjustment policy such that, in the case of substantial failure to achieve the stated energy savings as stipulated in the EMC, the pre-determined fixed monthly leasing fee will be adjusted downward accordingly with reference to the shortfall. During the Track Record Period, no triggering event has occurred that required our Group to make an adjustment to the pre-determined fixed monthly leasing fee.
- (f) We are also responsible for the contractors' all risk insurance which cover the installation work and lighting products deployment carried out by our sub-contractors within the contract period.

The abovementioned services are generally provided to our leasing services customers, but not the direct sales customers, except that:

- (a) subject to negotiation of terms, we may provide installation services to our direct sales customers for our lighting products for a fee; and
- (b) any defective goods may be returned to our Group for replacement within our warranty period pursuant to agreements entered into between our direct sales customers and us.

We generally offer leasing services to our customers with an initial term of three years. The initial term of the EMC is agreed after arm's length negotiation with our customers. Since every customer has different settings and requirements, tailor-made solutions will be provided to yield maximum mutual benefits.

Generally, during the term of the EMC, the deployed lighting products (including spare lighting products placed with the customers on site and the spent lighting products) belong to our Group, and all deployed lighting products are required to be returned to our Group upon termination and expiry of the EMC, but in limited cases subject to negotiation of the terms of the EMC, the ownership of lighting products may also be transferred to our customers upon the end of term of the EMC.

BUSINESS

The table below sets forth the details and movements of our EMCs during the Track Record Period.

	Year ended 31 March		Six months ended 30 September
	2013	2014	2014
	2013	2014	2014
Contracts on hand at the beginning of year/period	107	113	109
Contracts signed			
– new contracts	19	14	5
– contracts renewed upon termination/expiry ^(Note 1)	25	25	11
Contracts terminated/expired during the year/period ^(Note 1)	<u>(38)</u>	<u>(43)</u>	<u>(21)</u>
Contracts on hand at the end of year/period	<u>113</u>	<u>109</u>	<u>104</u>
Renewal rate (for contracts renewed during the year/period only) ^(Note 2)	65.8%	58.1%	52.4%
	As at 31 March		As at 30 September
	2013	2014	2014
	HK\$'000	HK\$'000	HK\$'000
Total contract value of contracts on hand ^(Note 3)	30,552	28,993	26,264
Average contract value of contracts on hand ^(Note 4)	270	266	253
Total cost savings under contracts on hand ^(Note 5)	50,573	50,829	47,662
Average cost savings under contracts on hand ^(Note 6)	448	466	458

Notes:

1. Renewals of our EMCs only take place upon or after termination or expiry of the relevant contracts. To the best knowledge of our Directors, during the Track Record Period, our customers did not enter into new EMCs with us after their contracts terminated/expired, primarily due to (i) relocation of their offices; (ii) termination of their businesses; or (iii) their own commercial considerations, which may include, among other matters, their internal allocation of capital. For contracts terminated due to relocation of offices, our customers may not be able to enter into new contracts with us because our lighting products may not be applicable to their new offices and/or past electricity consumption comparable is not available for their new offices.
2. Renewal rate equals to the number of renewed contracts during the year/period divided by the total number of contracts terminated/expired during the year/period.
3. The total contract value of contracts on hand refers to the total amount of the service fees received or to be received by us pursuant to our EMCs on hand at the end of the relevant year or period.
4. The average contract value of contracts on hand refers to the total contract value of our EMCs divided by the number of our EMCs on hand at the end of the relevant year or period.
5. Total cost savings under contracts on hand refers to the total amount of savings by our customers in terms of energy consumption costs (i.e. electricity charges) as stated on our EMCs on hand at the end of the relevant year or period.
6. The average cost savings under contracts on hand refers to the total cost savings under our EMCs divided by the number of our EMCs on hand at the end of the relevant year or period.

As at 30 September 2014, we have 104 EMCs on hand with fixed monthly leasing fee amounting to a total of approximately HK\$0.7 million.

BUSINESS

The following table shows the number of contracts expired/expected to expire in each of the following years according to the expiry dates on our EMCs on hand as at 30 September 2014:

	Year ending 31 March					TOTAL
	2015	2016	2017	2018	2019	
Contracts expired/expected to expire during the year	8	47	30	18	1	104

4. PRICING POLICY

We use similar basis and elements in formulating our pricing policy for all of our businesses.

Trading of lighting products

When devising the price of our goods sold to our distributors, we will take into account factors such as electricity unit rate of the relevant market, the purchase volume, market acceptance of environmentally friendly lighting products, costs of our lighting products, the extent of other services that are required to be provided by us, and the estimated revenues our customers may charge to their end customers on provision of energy saving solutions (if applicable).

Consultancy Services

When devising the amount of fees for our Consultancy Services, we will take into account factors such as electricity unit rate of the relevant market, the project size, the number of operating hours of the relevant site, the number of tubes to be deployed, if applicable the estimation of the reasonable duration of the potential EMC (generally three years based on our experience in providing energy saving solutions in Hong Kong) to be entered into by our customers, the estimated deployment costs at the relevant sites and also the extent of other services we are to provide to them.

Our customers conduct energy saving solutions business in certain regions in the PRC, and we charge our Consultancy Service fees with reference to the revenue that they may charge their end customers, similar to the sharing of the saved electricity with our leasing services in Hong Kong. Unlike leasing services and trading of lighting products, Consultancy Services do not involve significant direct costs such as material purchase cost or deployment cost in the other two segments which are quite significant as compared to the income earned from those segments. The direct costs of Consultancy Services which mainly included staff salaries and research costs are relatively low as compared to the attributable income and thus resulting in a significantly higher profit margin when compared to the Group's other two segments. However, we believe that our Consultancy Services customers will take into account our business track record, industry knowhow, technological capability, etc., which we have built up over the years and which we believe are valuable and vital to our Consultancy Services customers.

The actual amount charged by us for each and every contract (whether it is for our leasing services, our Consultancy Services or trading of lighting products) will be subject to negotiation and will also take into account any special circumstances or additional requirements of our customers.

Leasing services

Details of our pricing policy for our leasing services are described in the sub-paragraph headed "Fixed monthly leasing fee" in this section of this [REDACTED].

BUSINESS

5. PRODUCTS

As at the Latest Practicable Date, the lighting products offered by our Group can be broadly classified into three categories, namely, (a) "Tube-in-Tube" Fluorescent Lamps; (b) LEDs; and (c) induction lamps.

The table below sets forth a breakdown of our Group's gross profit and gross profit margin for our products from external customers for the period indicated:

	Year ended 31 March				Six months ended 30 September	
	2013		2014		2014	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	HK\$'000	%	HK\$'000	%	HK\$'000	%
"Tube-in-Tube" Fluorescent Lamps	10,220	40.8	16,294	48.9	6,408	48.7
Induction lamps ^{Note}	348	32.3	1,243	27.9	2,967	32.9
LEDs	266	25.5	1,146	26.7	355	36.6
Total	<u>10,834</u>	39.9	<u>18,683</u>	44.4	<u>9,730</u>	42.0

Note: Induction lamps include high bay lamps, flood lights and the relevant parts of such lighting products.

Our products are categorised as follows:

"Tube-in-Tube" Fluorescent Lamps

Our patented "Tube-in-Tube" Fluorescent Lamp is a retrofit for the existing T8/T10/T12 lighting fixtures. It is available in all sizes: 2', 3', 4', 5' and 8' and featuring different colour temperatures ranging from 2,700K to 6,500K. Its applications include offices, commercial buildings, shopping malls, car parks, advertisement light boxes, and supermarkets, etc. Our retrofit technology does not require replacement of the existing lighting fixtures. Our leasing services customers are not required to pay for any upfront costs or investments for new system or fixtures in order to enjoy the energy savings from our leasing services. Further, the recurring operational expenses of our leasing services customers such as material and labour costs will be reduced because our leasing services cover replacement of spent lighting products and our products' longer average life span reduces labour and maintenance cost.

Please refer to the paragraph headed "Recognitions and Awards" under this section for the awards relating to our "Tube-in-Tube" Fluorescent Lamp technology.

BUSINESS

Induction lamps

Our induction lamps include mainly high bay lamps, flood lights and the relevant parts of such lighting products. Our induction lamps are sourced from our short-listed suppliers, and some are produced with customisation at our request to specifically suit our customers' needs and requirement. Our induction lamps are categorised as follows:

Synergy High Bay Lamp Series



This series of product uses a circle tube as its light source with an optional aluminium lamp reflector, mirror-like polishing. A specific model of this series has an ultraviolet anti-ageing silicon gasket. It is available in different wattages and different colour temperatures. Its applications include warehouse, car park, repair and maintenance centre, factory and supermarket.

Synergy Flood Light Series



This series of product uses a square tube as its light source with die cast aluminium. Depending on specific requirements, the body of the lamps can be coated with epoxy powder, housed with a tempered glass cover with corrosion proof silicon rubber sealing ring, or heat resistant silicon rubber sealing ring. It is available in different colour temperature and in various wattages. Its applications include warehouse, car park, repair and maintenance centre, factory, supermarket, billboards, stadiums, tennis courts and swimming pools.

LEDs

Our LEDs are generally sourced from our short-listed suppliers. Some products are being manufactured based on our provided specification to suit our customers' needs and requirement, at times, we may also source from other suppliers. Our major LED products are categorised as follows:

Synergy LED Lamp MR16 Series



This series of product is in aluminium housing with various colour finishing available. A wide range of beam angles and different types of diffusers available to conform to different requirements. It is available in different colour temperature and in various wattages with optional dimmable function. Its applications include office, shop, supermarket, shelves, furniture, factory, and home.

BUSINESS

Synergy PAR Series



This series of product is in aluminium housing with various colour finishing available. A wide range of beam angles and different types of diffusers available to conform to different requirements. It is available in different colour temperature and in various wattages with optional dimmable function. Its applications include office, shop, supermarket, shelves, furniture, factory, and home.

Synergy LED AR111 Series



This series of product is made out of die-cast aluminium. It offers instant replacement for conventional halogen lamp. There is various colour temperature available and in various wattages with optional dimmable function. Its applications include hotel, restaurant, bar, coffee house and cabinet lighting in all kinds of locations.

Synergy Candle Light Series



This series of product with a unique design of plastic cover providing a "flame-like" reflection effect. It also has a unique lens to improve lighting distribution. It is an ideal to use on crystal chandelier and luxurious decoration. A wide variety of application areas are encountered in hotels, exhibition halls and restaurants.

6. MARKETING AND CUSTOMERS

Our customers

Trading of lighting products

Our trading customers are mainly overseas distributors who purchase the lighting products from our Group. During the Track Record Period, the term of our distributorship agreement is generally 2 years. Other than our overseas distributors, we also have direct sales customers for our trading business.

Revenue from our distributors accounted for approximately HK\$24.5 million, HK\$36.4 million and HK\$22.0 million of our total revenue and representing approximately 34.6%, 45.6% and 58.1% of our total revenue for the two years ended 31 March 2013 and 2014 and for the six months ended 30 September 2014 respectively, while the revenue derived from our Group's sales to our local and overseas customers (including our distributors and direct sales customers) accounted for approximately 38.4%, 52.7% and 61.2% of the total revenue of our Group during the two years ended 31 March 2013 and 2014 and for the six months ended 30 September 2014.

As at the Latest Practicable Date, we have appointed six exclusive distributors and two non-exclusive distributors.

BUSINESS

Consultancy Services

We have two Consultancy Services customers, both of which are energy saving consultancy services providers. During the Track Record Period we had certain business relationship with the associates of one of our Consultancy Services customers, Well Spread. For further information relating to the relationship between our Group and the associates of Well Spread, please refer to the section headed "Relationship with Well Spread" in this [REDACTED].

Our gross profit margins in relation to the CS Contracts with our two Consultancy Services customers are at a similar level during the Track Record Period. The gross profit margin for our Consultancy Services was approximately 97.1% and 96.9% for the year ended 31 March 2013 and the year ended 31 March 2014 respectively, during which we only entered into CS Contracts with Well Spread. During the six months ended 30 September 2014, we provided Consultancy Services to the other customer, for which the gross profit margin was approximately 97.8% during the period.

During the Track Record Period, a substantial amount of our income derived from Well Spread. However, the reliance on Well Spread had been declining during the Track Record Period from approximately 49.4% to 34.8% of our total revenue for the years ended 31 March 2013 and 31 March 2014 respectively, and further declined from approximately 33.1% to 0% of our total revenue for the six months ended 30 September 2013 and 30 September 2014 respectively. The decline of our reliance was mainly due to (i) the continuously increasing contribution from our trading business (especially the overseas distribution) accounting for approximately 38.4%, 52.7% and 61.2% of the total revenue of our Group during the two years ended 31 March 2013 and 2014 and the six months ended 30 September 2014; and (ii) the signing of a new CS Contract with our new customer for Consultancy Services in August 2014, accounting for approximately 27.8% of the total revenue of our Group for the six months ended 30 September 2014.

Furthermore, it is our Group's strategy to further expand the clientele of our Consultancy Services should we be able to identify suitable potential customer, further explore opportunities for cooperation with suitable business partners for our Group to explore business opportunities worldwide, continue to develop our distributors network, and further develop our leasing services. As such, our Directors are of view that our Group is not reliant upon Well Spread, and the contribution by Well Spread in terms of the proportion of income contribution to our Group's total revenue will be further reduced.

Revenue from our five largest customers accounted for approximately 82.6%, 80.4% and 88.5% of our total revenue for the years ended 31 March 2013 and 2014 and for the six months ended 30 September 2014 respectively.

Leasing services

Our leasing services customers are mainly end-users of energy saving solutions, among which many of them are reputable and/or multi-national companies in Hong Kong, such as property management companies, car park operators, retail operators, banks and insurance companies, which utilise relatively substantial amount of electricity in the properties which they manage or operate, such as office premises, shopping malls, residential properties, car parks, retail chains and restaurants, etc.. As our EMCs are generally for a term of three years, we consider we have entered into long-term business relationships with our leasing services customers. As at the Latest Practicable Date, our Group has 51 leasing services customers with 106 EMC contracts.

BUSINESS

The profile of our five largest customers during the Track Record Period is summarised as follows:

Customer	Length of business relationship with us up to the Latest Practicable Date	Type of service we rendered	Background of customer	Percentage of revenue attributable to us in the respective year/period
For the year ended 31 March 2013				
Well Spread	4 years	Consultancy Services	Hong Kong based energy saving consultancy services provider	49.4%
Customer A	2 years	Trading of lighting products	Lighting products distributor in Japan	13.6%
Customer B	3 years	Trading of lighting products	Lighting products distributor in Australia	11.5%
Customer C	3 years	Trading of lighting products	Lighting products distributor in Malaysia	5.7%
Customer D	5 years	Trading of lighting products and leasing services	Property management company in Hong Kong	2.4%
For the year ended 31 March 2014				
Well Spread	4 years	Consultancy Services	Hong Kong based energy saving consultancy services provider	34.8%
Customer A	2 years	Trading of lighting products	Lighting products distributor in Japan	29.5%
Customer C	3 years	Trading of lighting products	Lighting products distributor in Malaysia	7.4%
Customer B	3 years	Trading of lighting products	Lighting products distributor in Australia	4.8%
Customer E	1 year	Trading of lighting products	Retailer of luxury products in Hong Kong	3.9%
For the six months ended 30 September 2014				
Customer A	2 years	Trading of lighting products	Lighting products distributor in Japan	39.3%
Customer F	6 months	Consultancy Services	Macau-based energy saving consultancy services provider	27.8%
Customer B	3 years	Trading of lighting products	Lighting products distributor in Australia	18.1%
Customer D	5 years	Trading of lighting products and leasing services	Property management company in Hong Kong	1.8%
Customer G	3 years	Leasing services	Information technology service provider in Hong Kong	1.5%

BUSINESS

Sales to our largest customer for the two years ended 31 March 2013 and 2014 and the six months ended 30 September 2014 amounted to approximately HK\$35.0 million, HK\$27.9 million and HK\$14.9 million respectively, representing approximately 49.4%, 34.8% and 39.3% of our total revenue for these periods. For the two years ended 31 March 2013 and 2014, Well Spread, our Consultancy Services customer which is a consultancy services provider, contributed the most to our revenue, whereas for the six months ended 30 September 2014, our Japanese distributor became our largest customer.

None of our Directors or any of their respective associates, or any Shareholder who owned more than 5% of the issued share capital of our Company as at the Latest Practicable Date, held any interest in any of our five largest customers during the Track Record Period. Except that the sole director of and a shareholder holding approximately 20.2% interest in our Japanese distributor was also one of the seven directors in the board of and a shareholder holding approximately 16.5% interest in our Australian distributor, our Japanese distributor and our Australian distributor advised that they were two separate legal entities and did not have any relationship, and such common shareholder and director was not their respective single largest shareholder. Save for the above, our Directors are not aware of any relationship among the Group's five largest customers during the Track Record Period.

Marketing and promotion

We believe effective business promotion is one of the reasons for our success. Our sales and marketing department engages a variety of marketing activities and channels to promote recognition and image of our brand. Besides, we also engage marketing agents to promote and market our energy saving solution services and products. For the two years ended 31 March 2013 and 2014 and the six months ended 30 September 2014, our marketing and promotion expenses were approximately HK\$1.5 million, HK\$0.4 million and HK\$0.1 million respectively, representing approximately 2.1%, 0.4% and 0.3% of our total revenue for these periods.

Our own marketing efforts

Our Group has published articles in magazines and produced our own brochures. Our senior management also delivered speeches in different universities and participated in various interviews and seminars. Attending trade exhibitions has also been one of the ways for us to promote our business.

We have engaged a public relations firm to coordinate our marketing activities. We also sponsor non-governmental organisations, which share similar business philosophy with our Group, to promote our Group while fulfilling the social responsibilities.

We will continue to conduct the above activities to promote our business and our Group, and we aim to further promote our business by attending energy saving and green technology fairs and exhibitions in the international markets.

Our marketing agents

Our marketing agents are appointed on a non-exclusive basis as our representatives in promoting and marketing our energy saving solution services and products. They receive a certain percentage of our revenue generated by customers referred by them (mostly are leasing services customers in Hong Kong) as commission. The appointment of our marketing agents was generally for a term of one to three years which is renewable for the next term until termination. The agency agreements may be terminated by our Group by serving notice to our marketing agents in certain adverse situations as stated in the relevant agency agreements. Moreover, under the agency agreements between our Group and our marketing agents, our marketing agents are obligated to ensure timely payment to be made from the customers referred to our Group by them although all payments, fees and deposits (if any) shall be dealt with between our Group and the customers directly. Such arrangement for appointment of marketing agents was made to assist our Group in promoting our Group and our energy saving solutions.

BUSINESS

As at the Latest Practicable Date, we have three agency agreements for our Hong Kong market. For our marketing agents in Hong Kong, two are individuals and one is a corporation. All our existing marketing agents in Hong Kong are Independent Third Parties, and all of them were appointed on a non-exclusive basis. During the Track Record Period, the turnover generated from customers referred to our Group by our marketing agents was approximately HK\$1.3 million, HK\$1.1 million and HK\$0.4 million for the two years ended 31 March 2013 and 2014 and for the six months ended 30 September 2014 respectively, most of which was generated from our leasing services.

The target markets of the marketing agents are leasing services or direct sales to corporate clients, which in fact complements our Group's business strategies and our Group currently does not notice any competition arising from our marketing agents, and we will from time to time communicate with our agents to align their business development strategies with our business development strategies.

As we considered our energy saving business in Hong Kong has been successful in serving our reputable and/or multi-national corporate customers, and in order to avoid possible competition between our leasing services and the sale of our lighting products in Hong Kong, we focus on providing leasing services in Hong Kong and we only sell our lighting products in Hong Kong if our clients specifically prefer direct sales as opposed to leasing services. Although our Group has also appointed marketing agents, their roles are only to promote and market our leasing services and lighting products. They refer end customers (mostly are leasing services customers in Hong Kong) to our Group and in return receive a certain percentage of our revenue generated. Our Directors believe that as our marketing agents are appointed on such basis, the risk that our Group's lighting products becoming available in Hong Kong to compete with our leasing services could be minimised.

The Macau partnership

On 17 November 2011, Synergy Worldwide and SIEPS entered into the Macau Joint Venture Agreement (which was supplemented and amended by two supplemental agreements dated 21 August 2012 entered into by Synergy Worldwide and SIEPS to amend certain terms of the Macau Joint Venture Agreement). Under the Macau Joint Venture Agreement, Synergy Worldwide agreed to (a) provide Consultancy Services, and (b) sell lighting and refrigerating equipment and products to SIEPS within the territory of Macau on an exclusive basis. SIEPS agreed to keep all information and documentations provided by Synergy Worldwide in confidence during the term of the Macau Joint Venture Agreement and for one year after its termination.

Pursuant to the Macau Joint Venture Agreement, SIEPS paid an agreed deposit to Synergy Worldwide as money on account for its future purchase of lighting and refrigerating equipment and products under the agreement. As at the Latest Practicable Date, approximately 50.6% of the deposit paid by SIEPS had been applied to set off orders placed by SIEPS mainly for our lighting products. Since our Group and SCM (HK) sells lighting and refrigerating equipment and products to SIEPS in addition to the provision of Consultancy Services, our Directors consider that the arrangement with SIEPS is part of our trading business and no consultancy service fee has been charged separately.

In addition to the price of goods sold to our Macau partner, SIEPS, our Group will also be entitled to a service fee representing 30% of the annual net revenue for the period from 1 January to 31 December of our Macau partner. Such service fee will be settled once every calendar year and payable within 45 days after the relevant year end. Such service fee arrangements were reached after arm's length negotiations between our Group and SIEPS. With such arrangements, our Group may enjoy the upside of the operating results of SIEPS. During the Track Record Period, we did not receive any service fee from our Macau partner, as it did not generate any annual net revenue for the relevant periods during the Track Record Period.

BUSINESS

The Macau Joint Venture Agreement was for a term of two years from the date of signing of the agreement. At the expiry date the Macau Joint Venture Agreement, the agreement shall be automatically renewed for a further term unless either party terminates the agreement by means of three months written notice. The Macau Joint Venture Agreement has been automatically renewed on 17 November 2013 and was still in force as at the Latest Practicable Date.

7. SOURCING AND SUPPLIERS

The lighting products offered by us to our customers include our "Tube-in-Tube" Fluorescent Lamps, LEDs and induction lamps. Our lighting products are mainly sourced through our OEM suppliers, and some are also sourced from other suppliers as further described below.

Production subcontracting arrangements for "Tube-in-Tube" Fluorescent Lamps and high bay lamps

To enjoy greater flexibility in production and minimise our risks, capital expenditure and fixed costs involved in setting up our own production lines, we engage the OEMs to produce our "Tube-in-Tube" Fluorescent Lamps and high bay lamps for us.

During the Track Record Period, we have engaged four OEMs for manufacturing our "Tube-in-Tube" Fluorescent Lamps, and among the four OEMs, one of them is also engaged for producing our high bay lamps. Among the four OEMs for our "Tube-in-Tube" Fluorescent Lamps, two of which are located in Foshan, one is located in Shenzhen, and the other one which also produces high bay lamps is located in Zhongshan, the PRC, which started to produce our lighting products for us since 2009, 2011, 2011 and 2013 respectively. Since 2014, one of the OEMs located in Foshan, who has been our supplier since 2009, has ceased to be our OEM supplier as the price of lighting products offered by it became less competitive when compared with that offered by our other OEM suppliers. The two Foshan OEMs and the Zhongshan OEM were introduced by Mr. Chan and Mr. Ng to our Group, and they were established in March 2007, June 2011 and August 2008 in the PRC respectively. The Shenzhen OEM was introduced by Mr. Reinig, and was established in July 2007. Each of the OEMs is an Independent Third Party and engaged in the business of lighting products manufacturing.

We selected these OEMs based on certain criteria such as the price of products and quality of products and services. Although no framework agreements were entered into with our OEMs, our OEMs have been putting resources on capital investment and human resources development, focused on production of quality products. Before each and every delivery of products, Fine Sky or its executive or our own staff will inspect and take random checks on the products produced for us (details of our relationship with Fine Sky are set out in the sub-section headed "Quality Assurance" under this section of this [REDACTED]). Our staff will also conduct ad hoc site visits to our OEMs with a view to monitor their production schedule and quality.

Our Group has entered into Confidentiality Agreements with each of our four OEMs concerning the Confidential Information. The major terms of the Confidentiality Agreements include that:


- (a) each of the OEMs acknowledges that the Confidential Information is the sole and exclusive property of our Group;
- (b) the Confidential Information imparted to each of the OEMs is in strict confidence and solely for the OEMs to supply relevant lighting products to our Group;
- (c) each of the OEMs shall not without the prior written consent of our Group make any notes, sketches, drawings, photographs, copies and/or records of the Confidential Information;

BUSINESS

- (d) each of the OEMs shall, if so requested, return to our Group the Confidential Information together with all copies thereof that are in its possession, custody or control upon such time when each of the OEMs' rights to use the Confidential Information shall cease; and
- (e) each of the OEMs is authorised on a non-exclusive basis to use and reproduce information as posted on our Group's website at www.synergy-group.com and to create a hyperlink to our Group's website at www.synergy-group.com solely for the purpose of advertising, promoting and marketing of our relevant lighting products.

Other than the Confidentiality Agreements, we do not have any framework agreements for production of our "Tube-in-Tube" Fluorescent Lamps or high bay lamps with our four OEMs. So far as our Directors are aware of, the OEMs have never breached any of the material terms of the Confidentiality Agreements up to the Latest Practicable Date.

The scope of services provided by our OEMs to our Group is on a non-exclusive basis; in other words, the OEMs can produce other lighting products (i.e. products other than our Synergy-branded lighting products) to other parties without our Group's consent.

The OEMs manufacture our Synergy-branded lighting products to the standard, quality and specifications as required by our Group. All the products manufactured by the OEMs for us are under our brand name "Synergy" and with our registered trademark "". Our OEMs will generally provide warranty on the products they supplied to us ranging from periods of 24 months to 36 months.

The OEMs are responsible for procuring raw materials, the production of our Synergy-branded lighting products and delivery of finished goods to designated location. With reference to its own production costs and our order size, each of the OEMs issues and updates its price list to our Group from time to time. Such price lists set out the prices of Synergy-branded lighting products that the OEMs will charge us.

Every time our Group receives an order from our distributors, we will submit a purchase order specifying the specifications, quantity, price (according to the price list issued by the OEMs), packaging requirements and scheduled date and place of delivery of the products to the OEMs about 21 to 28 days before the scheduled date of delivery of such products. The OEMs will then indicate whether they will accept our order and/or adjust the product price to reflect fluctuations in their production costs. After the OEMs have accepted the order, we will pay a deposit in general of 30% to 50% and thereafter they will proceed to production. Before delivery, the OEMs will notify our quality controller to inspect the finished products for us. If the products meet the specified specifications and quality, the OEMs will arrange delivery according to the purchase order. The OEMs will issue an invoice for the balance of the purchase price, which will be paid upon delivery. Generally, both the deposit and the balance of purchase price will be settled by telegraphic transfer.

Since the establishment of the aforesaid subcontracting arrangement, our Group has not faced any difficulty in respect of our co-operation with the OEMs. Up to the Latest Practicable Date, we have not faced any delay in delivery of orders, the OEMs' refusal to accept our orders, quality problem or infringement of intellectual property rights of our Group by the OEMs. Our Directors are of the view that our Group would maintain the aforementioned subcontracting arrangements.

For our Consultancy Services, we will advise our customers on products specifications and provide purchase order templates and authorise our OEMs to supply the recommended quantity of products to them or their specific end users. During the Track Record Period, we disclosed to our two customers of our Consultancy Services the identity of two of our OEMs under the foregoing arrangements, which were for the commercial arrangements between our customers and their ultimate end-users. We nevertheless would charge our customers the Consultancy Services rendered whether or not the purchase order of the energy saving lighting products were made through us or not. Further, we would not become liable for the warranties and quality of the products which will solely be responsible by the OEM.

BUSINESS

Notwithstanding the above arrangements, our Directors believe that there are contractual safeguard against the OEMs under the signed Confidentiality Agreements with our Group and we are allowed to visit our OEMs to monitor our OEMs' production lines on whether they are producing our Synergy-branded lighting products for any third party without our authorisation or infringe our intellectual property rights by using our intellectual property rights in other products. Since our OEMs are bound by the terms of the Confidentiality Agreements, any breach of the contractual restraints would not only jeopardise the established relationship between us and our OEMs, but also expose our OEMs to litigation risks as we will take such legal actions as may be advised to defend our rights. Our Directors consider that such contractual restraints and visits to the OEMs are appropriate measures taking into account the necessary costs that our Group have to incur.

Sourcing and procurement of other lighting products

Other than our "Tube-in-Tube" Fluorescent Lamps and high bay lamps, we source and procure other lighting products, which include mainly LEDs and flood lights, from independent suppliers. Sourcing and procurement function of our Group is performed by our sales and marketing department which works closely with our research and development department and the project management department.

Suppliers

Our Group has not entered into any long-term supply agreements, giving us the flexibility to source the most suitable lighting products for our customers. We settle our purchases mainly in HK dollars and by way of cheques with our suppliers either on cash on delivery basis or with generally 30 days credit terms.

Our Directors believe that we maintain good relationships with our suppliers by (i) implementing a set of transparent suppliers selection procedures by giving our Group's norms of quality requirements and procedures to all of our suppliers; (ii) establishing clear communication channels with the suppliers; and (iii) visiting our suppliers regularly to maintain the relationships and to review the issues raised from both sides. During the Track Record Period, we have not encountered any substantial difficulties in sourcing other lighting products, which include mainly LEDs and flood lights, and there had been no material legal dispute between our Group and our suppliers.

At the quotation stage, our sales department will send out the required specifications to the suppliers for quotation. It will then choose the most suitable supplier and carry out basic assessment on the supplier, including but not limited to an inspection of the relevant products. Our Group maintains an approved supplier list for each category of products. The selection criteria for putting a supplier into the approved supplier list include:

- (a) track record – the product history and customer reference;
- (b) technical capability – the product or service knowledge to supply to high level of specification;
- (c) operation capability – the process knowledge to ensure consistent, responsive, dependable and reasonable cost supply;
- (d) financial capability – the financial strength to fund the business in both the short term and the long term;
- (e) managerial capability – the management talent and energy to develop supply potential in the future;
- (f) product warranty – failure rate, lifespan, lux and lead time of replacement;
- (g) payment term – payment period and terms; and
- (h) pricing – cost of product.

BUSINESS

Our suppliers for other lighting products, which include mainly LEDs and floods lights, will generally provide warranty on the products they supplied to us ranging from periods of 24 months to 36 months.

Generally, our Directors believe that our Group is not dependent on any single supplier since most of our lighting products are available from various suppliers in the open market. We have already identified several suppliers for each lighting products of our Group. Our Directors believe that substitutes can be easily identified and can be retained under similar commercial terms. Our Group's five largest suppliers accounted for approximately 95.7%, 98.7% and 99.3% of our Group's total purchases for the two years ended 31 March 2013 and 2014 and for the six months ended 30 September 2014, respectively.

For the financial year ended 31 March 2013, the largest supplier of our Group was OEM A and accounted for approximately 67.6% of our Group's total purchase. For the financial year ended 31 March 2014, the largest supplier of our Group was OEM B and accounted for approximately 52.8% of our Group's total purchase. For the six months ended 30 September 2014, the largest supplier of our Group was OEM C and accounted for approximately 46.2% of our Group's total purchase. Each of OEM A and OEM B is a supplier of our "Tube-in-Tube" Fluorescent Lamps while OEM C is a supplier of our high bay lamps. None of our Directors or any of their respective associates, or any Shareholder who owned more than 5% of the issued share capital of our Company as at the Latest Practicable Date, held any interest in any of our Group's five largest suppliers during the Track Record Period. The length of our business relationship with our top five suppliers ranged from one year to four years.

8. INVENTORY CONTROL

The inventory of our Group's operations primarily consists of finished goods. Our inventory represents the lighting products for our trading of lighting products business. We steer to reduce excess levels of finished goods in our inventory while maintaining the ability to meet the demands of our customers. Our lighting products, which include our "Tube-in-Tube" Fluorescent Lamps, LEDs and induction lamps, are procured upon our customers and distributors placing their order. Our suppliers usually take around one to two weeks to produce and deliver the lighting products to us.

Our inventory balances as at 31 March 2013 and 2014 and 30 September 2014 were approximately HK\$0.4 million, HK\$0.4 million and HK\$0.3 million, respectively, and our average inventory turnover days were approximately eight, seven and five days for the two years ended 31 March 2013 and 2014 and for the six months ended 30 September 2014 respectively.

9. QUALITY ASSURANCE

We strive to maintain and improve quality standards and have implemented a comprehensive quality control policy to ensure our solutions and products meet the expectations of our customers. Our Group provides replacement warranty (i.e. if any of our lighting products is spent and upon notification from our customers, we provide and deliver such number of replacement lighting products to our customers upon their return of the corresponding number of spent lighting products) on all our lighting products which generally varies from product to product ranging from periods of 24 months to 36 months.

Quality assurance tops our priority when appraising prospective and existing suppliers. We conduct quality assessment on all prospective suppliers before selecting them as our suppliers. We also monitor the quality of production inputs supplied by our suppliers on an on-going basis. We normally require the subcontracting OEMs to obtain ISO and RoHS quality certifications for its quality management systems and products, respectively.

During the Track Record Period and up to the Latest Practicable Date, our Group had not received any complaints from our customers on the quality of our lighting products.

BUSINESS

While our research and development department conducts the quality assessment for our lighting products, we also engage Fine Sky as our special consultant to, amongst others, perform quality assessment of "Tube-in-Tube" Fluorescent Lamps in various production stages and over finished goods at the factories of the subcontracting OEMs. Fine Sky, one of our Shareholders which owned 4.0% of our Company after the Reorganisation but prior to completion of the [REDACTED], is 100% owned by Mr. Chan and Mr. Ng, the inventors of the "Tube-in-Tube" Fluorescent Lamp technology and have been involved in the continuing enhancement and advancement of "Tube-in-Tube" Fluorescent Lamps. They are familiar with the product specifications and our requirements. On 29 March 2012, SLL entered into a consultancy contract with Fine Sky as extended by an extension letter on 4 September 2013. The appointment of Fine Sky as our Group's special consultant is for a term up to 30 September 2017 with a fixed monthly fee of HK\$15,000. Fine Sky and the executives appointed by it shall, on an exclusive basis, provide research and development services to our Group and/or our Group's research and development team with the purpose of promoting and enhancing the "Tube-in-Tube" Fluorescent Lamps and shall be responsible for the development and quality control of such products and that all intellectual property rights of any enhanced/newly developed/improved products/technology/design relating to the "Tube-in-Tube" Fluorescent Lamp technology shall belong to our Group.

During the Track Record Period, approximately HK\$10,000, HK\$15,000 and HK\$19,000 were incurred for the two years ended 31 March 2013 and 2014 and for the six months ended 30 September 2014 respectively for exchange of our spent lighting products.

10. RESEARCH AND DEVELOPMENT

We are committed in conducting continued research and development for advancement in our products, in particular in modifying and enhancing our lighting products to widen their application and to suit the different needs and requirements of different markets. Our research and development department is led by Mr. Reinig, our research and development consultant, who has over 40 years' experience in the lighting industry. Our research and development team works closely with our sales team, project management team, Mr. Chan and Mr. Ng, the original inventors of the "Tube-in-Tube" Fluorescent Lamp technology, and the research and development team of our designated subcontracting OEMs to develop the lighting products to meet our customers' needs.

On 30 May 2011, our Group entered into a consultancy agreement (as amended and supplemented) with Mr. Reinig, a German engineer for implementing and improving the IC technology for our "Tube-in-Tube" Fluorescent Lamps. The engagement of Mr. Reinig under the consultancy agreement (as amended and supplemented) is on an exclusive basis, which commenced on 1 May 2011 and shall expire on 29 February 2016 (subject to renewal). Mr. Reinig is engaged to research, develop and implement for our Group an IC technology for our "Tube-in-Tube" Fluorescent Lamp technology with certain specifications especially designed for certain European countries, Asia Pacific countries and North America countries. In return, Mr. Reinig is entitled to an annual remuneration together with additional payment on a discretionary basis. All intellectual property rights related to the IC technology researched, developed and implemented for our Group by Mr. Reinig under the consultancy agreement belong to our Group.

Since the appointment of Mr. Reinig as a consultant to our Group, Mr. Reinig has helped with improving the efficiency and performance of our "Tube-in-Tube" Fluorescent Lamp technology in terms of increasing life time, reducing heat dissipation and achieving higher lumen output by infusing integrated circuit technology with "Tube-in-Tube" Fluorescent Lamp design for our later generations "Tube-in-Tube" Fluorescent Lamps. Besides improving our "Tube-in-Tube" Fluorescent Lamp technology to maintain its competitive edge in the market, Mr. Reinig possesses the knowledge and experiences to customise our "Tube-in-Tube" Fluorescent Lamp technology to accommodate different countries' laws and regulations in order for us to penetrate new international markets.

BUSINESS

Up to the Latest Practicable Date, we have successfully developed and produced five generations of our "Tube-in-Tube" Fluorescent Lamps. The following is a table showing the features of different generations of our "Tube-in-Tube" Fluorescent Lamp technology:

	<u>1st generation</u>	<u>2nd generation</u>	<u>3rd generation</u>	<u>4th generation</u>	<u>5th generation</u>
Wattage	28W	22W	22W	22W	22W
T5	Non standard	Non standard	Standard	Standard	Standard
Life time	10,000 hrs	18,000 hrs	18,000 hrs	30,000 hrs	30,000 hrs*
Built-in reflector	No	Yes	Yes	Yes	Yes
Technology	Bi-polar	Bi-polar	Bi-polar	IC	IC
Year Launch	2003	2008	2010	2012	2014

* Life time will be doubled with very minimal maintenance cost

The fifth generation of our "Tube-in-Tube" Fluorescent Lamp utilises the same "Tube-in-Tube" Fluorescent Lamp technology as its previous generations. Life time of the tube is 30,000 hours and can be doubled with minimal maintenance cost. This new generation is an interchangeable T5 light source, such that when the current T5 lamp has reached its end of life, a new T5 lamp can replace the current T5 with minimal cost, thereby prolonging approximately twice its life time when compare with previous generations with minimal additional cost. Aluminium profile is utilised for better heat dissipation for electronics components, which can also prolong the life time of the lighting product.

Our in-house research and development team also researched on, designed and developed our high bay lamp, which uses a circle tube as its light source with an optional aluminium lamp reflector, mirror-like polishing. Its applications include warehouse, car park, repair and maintenance centre, factory and supermarket. We will continue to conduct research and development on our products with the objective of modifying and enhancing our products to widen their application and to meet the requirements of different markets.

Our research and development costs mainly include staff costs, certificates, testing and materials costs. While we conduct research and development activities in the course of our business development, our research and development costs vary with the stage of development of our products in that we generally need to incur higher research and development costs when we seek to customise our lighting products to fulfil the specification or regulatory requirements for a new market, as compared with the subsequent modifications or improvements of our product specifications. The table below sets out our research and development costs charged to the consolidated statement of comprehensive income during the Track Record Period:

	<u>Year ended 31 March</u>		<u>Six months ended</u>
	<u>2013</u>	<u>2014</u>	<u>30 September</u>
	<u>HK\$'000</u>	<u>HK\$'000</u>	<u>2014</u>
			<u>HK\$'000</u>
Staff costs and consultancy costs	818	816	233
Certificates, testing and materials costs	<u>1,301</u>	<u>1,059</u>	<u>134</u>
Total	<u>2,119</u>	<u>1,875</u>	<u>367</u>

Our research and development costs represented approximately 3.0%, 2.3% and 1.0% of our revenue for the two years ended 31 March 2013 and 2014 and for the six months ended 30 September 2014, respectively. As we intend to develop new markets with [REDACTED], our Directors expect that our research and development costs will increase in the future.

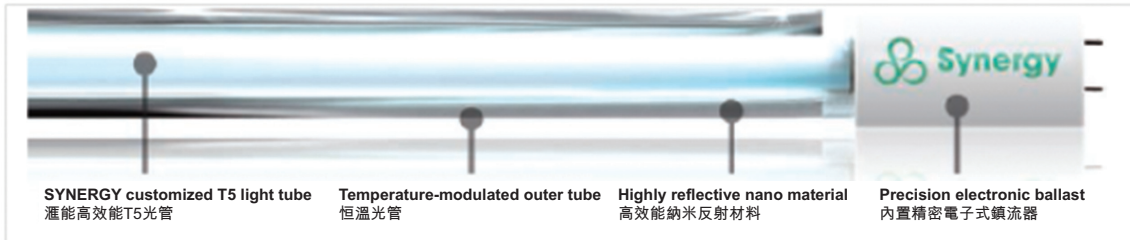
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11. INTELLECTUAL PROPERTY RIGHTS

As at the Latest Practicable Date, we are the proprietary owner of the "Tube-in-Tube" Fluorescent Lamp technology in Hong Kong and 12 other countries as further described below.

"Tube-in-Tube" Fluorescent Lamp technology

Our "Tube-in-Tube" Fluorescent Lamp is a patented fluorescent tube system, which comprises of:



- (a) a customised T5 light tube, which incorporates new generation of tri-phosphor and embedded reflective material to enhance luminosity and to reduce lumen depreciation;
- (b) a temperature-modulated outer tube, which keeps the fluorescent tube under modulated working environment to maximise performance and product life;
- (c) highly reflective nano material, which increases luminosity as compared with the traditional fluorescent tube; and
- (d) a built-in electronic ballast.

Our "Tube-in-Tube" Fluorescent Lamp technology is distinguishable from traditional fluorescent tube in a number of key aspects:

- (a) each traditional fluorescent tube comprises only one tube, which is the light emitting source; while each of our "Tube-in-Tube" Fluorescent Lamp comprises of an inner light emitting tube and an outer protective/stabilising tube;
- (b) a reflective material is inserted between the inner light emitting tube and the outer protective/stabilizing tube of each of our "Tube-in-Tube" Fluorescent Lamp, which the traditional fluorescent tubes do not have;
- (c) the size of the fixtures of traditional fluorescent tube are different, while our "Tube-in-Tube" Fluorescent Lamps can be installed on fixtures for T8 to T12 respectively;
- (d) each of our "Tube-in-Tube" Fluorescent Lamp has a built-in electronic ballast, whereas the T8 fluorescent tube requires an external ballast; and
- (e) the electricity consumption of our "Tube-in-Tube" Fluorescent Lamp is around 50% of a T8 fluorescent tube, for according to EMSD a 5' T8 fluorescent tube with an external ballast consumes approximately 70W of electricity per hour, while our 5' "Tube-in-Tube" Fluorescent Lamp with a built-in electronic ballast consumes approximately 30W of electricity per hour.

Our "Tube-in-Tube" Fluorescent Lamps is a retrofit product. It can be installed on fixtures for T8 to T12 without any modification. However, as our "Tube-in-Tube" Fluorescent Lamp has a built-in electronic ballast, which T8 fluorescent tube does not, we have to bypass or remove the existing ballast installed on the fixtures at the time when we install our "Tube-in-Tube" Fluorescent Lamps for our customers. After the existing ballast is bypassed or removed, our customers cannot replace our "Tube-in-Tube" Fluorescent Lamps with the T8 fluorescent tubes without reinstating the ballast.

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On the other hand, if our customers intend to replace our "Tube-in-Tube" Fluorescent Lamps with existing T5 tubes, they have to replace the fixtures of the lighting system as the existing T5 tubes are not retrofit products for T8 lighting fixtures. LED tube, like our "Tube-in-Tube" Fluorescent Lamp, could be used as a retrofit product (which at the time of installation bypassing or removal of the ballast (if any) is required). However, given the existing price difference between our "Tube-in-Tube" Fluorescent Lamps and a LED tube (considering the selling price of our "Tube-in-Tube" Fluorescent Lamps and LED tubes for our direct sales), our Directors are of the view that our "Tube-in-Tube" Fluorescent Lamps are not easily replaceable by the LED tubes.

Although our customers may replace our "Tube-in-Tube" Fluorescent Lamps with LED tubes, they have to bear the upfront costs of the lighting products while under our energy saving solutions our customers are generally not required to pay any upfront costs.

Our Directors believe that taking into account of the upfront investment needs to replace and reinstall the fixtures in order to convert from T8 to other energy saving lighting products such as T5 or LEDs, our "Tube-in-Tube" Fluorescent Lamp technology is not readily replaceable by these other energy saving lighting products in the foreseeable future.

Our registered patents

Our patented "Tube-in-Tube" Fluorescent Lamp technology was invented by two Hong Kong inventors. Our Group began to acquire the right in the patents relating to the "Tube-in-Tube" Fluorescent Lamp technology back in 2009. From 29 May 2009, we acquired the right to use and exploit the patents in various countries across the globe on an exclusive basis. Set out below are the patents we acquired which are valid and subsisting as at the Latest Practicable Date:

Country	Patent No.	Title	Application No.	Validity Period
Australia	2003252529	A New Fluorescent Lamp	2003252529	28/7/2023
Canada	2,495,809	Fluorescent Lamp Tube	2,495,809	28/7/2023
Hong Kong	1120360	Replaceable Electronic Tube in Tube	08111470.8	15/10/2016
India	239705	Fluorescent Lamp with Electronic Ballast	505/DELNP/2005	28/7/2023
Indonesia	ID 0021418	Fluorescent Lamp Tube	W-00200500466	28/7/2023
New Zealand	538570	A New Fluorescent Lamp	538570	28/7/2023
Philippines	1-2005-500361	A New Fluorescent Lamp Tube	1-2005-500361	28/7/2023
Russian Federation	2308783	Fluorescent Lamp	2005108353	28/7/2023
Singapore	110354	A New Fluorescent Lamp	200500702-6	28/7/2023
South Africa	2005/01995	A New Fluorescent Lamp	2005/01995	28/7/2023
South Korea	713196	A New Fluorescent Lamp	2005-7002631	28/7/2023
USA	7,083,309	Fluorescent Lamp Tube Having Integrated Electronic Ballast	10/498,629	28/7/2023
Vietnam	5668	A New Fluorescent Lamp	1-2005-00271	28/7/2023

Hong Kong Short-term Patent No. 1052834 (expired on 22 August 2010) discloses a new type of fluorescent lamp tube comprising: a lamp tube, an integrated electronic ballast, and an outer tube having two ends with outer plugs for respectively plugging into two lamp tube sockets.

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Hong Kong Short-term Patent No. 1120360 is an improvement over Hong Kong Short-term Patent No. 1052834 by providing a technical solution which is lacking in Hong Kong Short-term Patent No. 1052834. The electronic ballast in Hong Kong Short-term Patent No. 1052834 is affixed to the luminescent unit and if it does not function properly, the entire fluorescent lamp has to be replaced. The fluorescent lamp in Hong Kong Short-term Patent No. 1120360 features a fluorescent lamp with detachable electronic ballast so that if the electronic ballast or luminescent unit does not function properly, they can be replaced individually.

As advised by our Hong Kong legal advisers as to intellectual property rights, an invention is generally patentable if it is susceptible of industrial application, is new and involves an inventive step. Provided that an improvement to an existing invention meets these requirements, the improvement is in itself capable of being the subject matter of a new patent or patent application.

For a short-term patent to be granted in Hong Kong, the patent application has to meet all the formal requirements laid down in the Patents Ordinance. The Registrar of Patents of Hong Kong, after having conducted formality examination, was satisfied that the invention in Hong Kong Short-term Patent No. 1120360 met all those requirements set out in the Patents Ordinance.

The patents granted in Australia, Canada, India, Indonesia, New Zealand, Philippines, Russian Federation, Singapore, South Africa, South Korea, USA and Vietnam cover the first generation of the "Tube-in-Tube" Fluorescent Lamp technology whereas the patent in Hong Kong covers the third generation of the "Tube-in-Tube" Fluorescent Lamp technology. In making further improvements to our "Tube-in-Tube" products, we adopted our own techniques and know-how from years of research and development as well as commercial experiences in "Tube-in-Tube" Fluorescent Lamp technology in the fourth and fifth generations of our "Tube-in-Tube" Fluorescent Lamps. Although part of the technology of such later generations of our "Tube-in-Tube" Fluorescent Lamps (i.e. those covered under the third generation) is protected by our Hong Kong patent, these improvements do not involve novelty or inventive steps as such for them to be protected as invention patents or utility model patents. We are advised by our Hong Kong legal advisers as to intellectual property rights that such improvements can, nonetheless, be protected as our Group's trade secrets/proprietary information and/or copyright.

Our expired patents

We are advised by our Hong Kong legal advisers as to intellectual property rights that for the three patents relating to our "Tube-in-Tube" Fluorescent Lamp technology in China, Germany and Hong Kong which were expired in September 2012 (for China Patent No. 02254617.0), August 2012 (for German Patent No. 20321697.0) and August 2010 (for Hong Kong short-term Patent No. 1052834) respectively, they have already reached their full term of protection and renewal of these three patents is not possible. Both the patents obtained in China and Germany, which are now expired, were utility model patents and their full term of protection is 10 years from the date/month of filing. The patent obtained in Hong Kong which is now expired is a short-term patent and has a term of protection of 8 years from the date of filing. Once expired, the technology will fall into the public domain in these countries and the Group will not have a monopoly to use the technology. Nevertheless, we own a valid patent in Hong Kong which is an improvement over the expired Hong Kong patent by providing a technical solution which is lacking in the expired patent, details of which are set out in the paragraph headed "Intellectual property rights – Our registered patents" in this section. During the Track Record Period, no revenue has been generated in China or Germany, while the revenue generated from Hong Kong was approximately HK\$45.2 million, HK\$42.9 million and HK\$15.8 million respectively, representing approximately 63.8%, 53.6% and 41.8% of our total revenue.

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Our Directors are of the view that whether or not other parties have obtained patents for products with similar features or functions of our Group's "Tube-in-Tube" product will not affect the sustainability of our Group's business since any valid patent obtained by any other party will only cover features that are novel and inventive over the "Tube-in-Tube" Fluorescent Lamp technology. More importantly, through years of research and development, and adjustment made to the "Tube-in-Tube" Fluorescent Lamp technology, our Group already has a firm grasp of the technology and its products, professional services rendered and brand name have established confidence among its customers. Our Directors believe that our Group still has a competitive edge over newcomers to the "Tube-in-Tube" Fluorescent Lamp technology.

In addition to the foregoing, we have retained the original inventors of the "Tube-in-Tube" Fluorescent Lamp technology and a German engineer specialised in this area as our consultants to further improve and develop our "Tube-in-Tube" Fluorescent Lamp technology. We also place emphasis in developing long term customers' relationship and in catering for their requirements, and one way to achieve this is to develop and modify our existing products into retrofit lighting products that suit their existing systems. Technology aside, we believe our early entry into this energy saving lighting market, evidenced with our successful track records in terms of attracting multi-national and large-sized local corporations to sign our EMCs and industry recognitions in terms of the awards we received, allows us to maintain a competitive edge over other potential competitors in terms of credentials, reputation and track record in this market.

Although third parties may be able to utilise the technologies specified under the expired patents in these three regions, which potentially may compete with us, our Directors consider that our Group's future business development will also be dependent on (i) increased market awareness and reputation of our Group; (ii) our successful track records in implementing energy saving solutions with our corporate customers; and (iii) the credentials and relationships established with our leasing services corporate customers. Our Directors consider that potential competitors in Hong Kong may find it difficult, in terms of time and effort, for them to successfully establish their reputation, track records and relationships with our existing or potential customers in Hong Kong where we have already developed successfully for years. Therefore, our Directors are of the view that the three expired patents are not crucial to our Group's business and our Group can sustain our business going forward.

In relation to China, our Directors are of view the expiration of our Group's patent in PRC will not hinder our Group's development of the energy saving solutions business in the PRC. The dependence of our Group's patents to conduct business has been compensated by our Group's efforts in improving the energy efficiency "Tube-in-Tube" Fluorescent Lamps which is evidence of our Group's continued commitment to the research and development of our products. Also our Group has established our credentials, track record, and brand through working with sizable reputable customers in Hong Kong and through our overseas distributors. To this end, our Group's credential and track records in Hong Kong and overseas not only show the market acceptance of our Group's products but also give confidence to the end customers of our Consultancy Services customers in purchasing our products. Our Group believes that even with the expiration of the patent in China, new competitors with no prior experience in the energy saving lighting industry but only having products similar to our Group's "Tube-in-Tube" Fluorescent Lamps or those with prior experience in the energy saving lighting industry but without proven track records similar to our Group would have great difficulty in marketing their products and services to their customers.

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In relation to Germany, the situation will be similar to other countries where we have not registered our patents and we may face potential competition from third parties utilising our technologies. Details of the patent laws and regulations in different jurisdictions in which the patents relating to our "Tube-in-Tube" Fluorescent Lamp technology are registered and the consequences/implications of the expiry of the patents are set out in the section headed "Regulations" in this [REDACTED].

Moreover, to keep ourselves abreast of the market direction and upcoming trend in this energy saving lighting industry, we have been participating as an exhibitor or as a visitor in lighting fair during the Track Record Period. These lighting fairs not only give us exposure to potential customers from around the world, they also enable us to monitor and obtain up-to-date and current trend and information of the activities and products of other market players or potential competitors.

Furthermore, through interaction with potential customers during marketing activities and with existing customers when providing leasing services and/or negotiating renewals of the leasing services, we will be able to understand the actual commercial needs of our customers and potential customers.

We believe the above actions we have been taking would enable us to maintain our competitive edge in this market.

Whether for markets in Hong Kong, overseas, and the PRC, our Directors consider that the patents would not be the most crucial factor in developing our business in comparison with the startup stage of the business as our products have gained recognition in a number of markets worldwide. Our Group is now in the business development stage where it is more dependent on our continuously growing credential and track record to promote our business and future development would hinge on our continuous research and development as shown by the substantial improvement made for each newer generation of our Group's "Tube-in-Tube" Fluorescent Lamp.

Apart from the three expired patents as mentioned above, our Group owns, possesses, and has the right to use the intellectual property rights as set out in the table above. Our Directors confirm that there is no material violation or infringement of any intellectual property rights of our Group by any third parties or vice versa during the Track Record Period and up to the Latest Practicable Date.

At the early development stage of our Group, we were dependent on our patents and our primary product, "Tube-in-Tube" Fluorescent Lamps. Since we have been gaining market recognition in our energy saving solutions, which uses, among others, our "Tube-in-Tube" Fluorescent Lamps, we are able to rely more on our reputation and our energy saving solutions experience for future business growth.

Our certifications

We have successfully obtained different certifications for our patent "Tube-in-Tube" Fluorescent Lamp in order for us to explore overseas markets. As at the Latest Practicable Date, we have obtained the following certifications:

Certifications	Countries
CE	European markets
C Tick	Australia and New Zealand
PSE	Japan
TISI	Thailand
UL	USA and Canada

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12. PROPERTY INTERESTS

During the Track Record Period and up to the Latest Practicable Date, our Group did not have any self-owned property. As at the Latest Practicable Date, we have leased an office in North Point and one warehouse in Tokwawan. Our Directors confirm that, as at the date of this [REDACTED]:

- (a) our Group does not carry on any "properties activities" and does not have any property interest that would form part of "property activities" as defined under Rule 8.01(2) of the GEM Listing Rules and section 6(7) of the 32L Notice; and
- (b) no single, and the aggregate property interests of our Group that form part of "non-property activities" as defined under note to Rule 8.01(2) of the GEM Listing Rules and "Type A interest" under section 6(7) of the 32L Notice respectively have a carrying amount of 15% or more of our Group's total assets as at 30 September 2014.

Accordingly, pursuant to section 6(2) of the 32L Notice, this [REDACTED] has complied with the conditions specified in section 6(3) of the 32L Notice and is therefore exempted from compliance with the requirements of section 342(1)(b) of the Companies (WUMP) Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies (WUMP) Ordinance, which requires this [REDACTED] to include a valuation report with respect to all our Group's interests in land or buildings.

For the same reasons, we are also exempted under the GEM Listing Rules to include a valuation report in this [REDACTED].

An overview of all the leased properties of our Group is set out below:

No.	Description/Location	Gross Floor Area	Building Usage	Lessor	Lessee	Existing Usage	Lease term	Current Monthly Rent
								HK\$
1.	Factory C on the 8th Floor of Shun Wai Industrial Building No. 15 Yuk Yat Street Tokwawan Kowloon Hong Kong	210 sq.m.	Industrial (warehouse)	Luen Woo Cheong Investment Company Limited	SLL	Storage	1 year from 1 September 2014 to 31 August 2015	16,950 inclusive of Government rates and rent, and property tax, but exclusive of management fee
2.	Unit B404B, 4th Floor, Block B, Sea View Estate, Nos. 4-6 Watson Road, Hong Kong	4,000 sq.ft.	Industrial	Cityland Properties Limited	SLL	Office and warehouse	Two years from 15 September 2014 to 14 September 2016 (with an option to renew for two years from 15 September 2016 to 14 September 2018)	78,000 exclusive of management fee, rates, Government rent and other outgoings

While the Tokwawan warehouse which is leased from Luen Woo Cheong Investment Company Limited, a company wholly and beneficially owned by uncles of Mr. Arthur Lam, an executive Director, and constitutes a continuing connected transaction of our Company, the North Point office is leased from an Independent Third Party. Further details of the continuing connected transaction are set out in the section headed "Connected transactions" in this [REDACTED].

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We do not own any manufacturing facilities and our business operations do not require special design and conditions for the properties to be used for our business operations, other than applying as a registered chemical waste producer in respect of our warehouse for the proper storage of our fluorescent tubes and replaced or spent fluorescent tubes from our leasing services customers for proper disposal (please refer to the paragraph headed "Environmental protection" in this section for further details). Notwithstanding that, we do not believe it would be difficult for us to relocate to other comparable properties in Hong Kong to carry on our business at comparable rental rates and we believe the costs of such relocation would be immaterial.

13. INSURANCE COVERAGE

We have taken out and maintained insurance policies in respect of contractors' all risks for the deployment works carried out by our deployment subcontractors in relation to our energy saving projects. The coverage of such insurance policies includes all works performed by our Group and all our deployment subcontractors.

We have also taken out and maintained comprehensive property insurance against loss or damages of our Group's properties, including our business furniture, fixtures and fittings, machinery, plant and all other contents. We also maintain all our necessary insurance policies in respect of employees' compensation. Although our Group does not have any product liability insurance coverage, based on our Group's dealing and discussions with our customers (especially those for our leasing services), our Directors are of the view that our Group's insurance coverage is adequate for our operation. In addition, we have not experienced any material difficulties in renewing our insurance policies since we commenced our business.

During the Track Record Period and as at the Latest Practicable Date, the Directors were not aware of any material third party liability claim relating to our Group's business.

14. ENVIRONMENTAL PROTECTION

Under our EMC, we may be required by our leasing services customers to dispose of their replaced or spent fluorescent tubes. These replaced or spent fluorescent tubes are required to be properly disposed of under the Waste Disposal Regulation because these tubes contain a hazardous chemical waste – mercury as stipulated under the Waste Disposal Regulation. Accordingly, we have been a waste producer registered with the Director of Environmental Protection in respect of our warehouse where the chemical waste for spent mercury-containing lamp is produced for the purposes of proper storage of these spent mercury-containing lamps. We engage external contractors which are registered chemical waste collectors for recycling management for collection of these spent mercury-containing lamps for proper waste disposal.

We have adopted a systematic waste disposal procedure. After we collect the malfunctioned fluorescent tubes from our customers or when we are requested by our customers to handle other obsolete or spent lighting products, we will transport them to our registered warehouses for storage and handling. For malfunctioned "Tube-in-Tube" Fluorescent Lamp lighting products, we will dismantle the fluorescent tubes from the ballasts. The fluorescent tubes will be stored together with other obsolete lighting products pending collection and recycling. When they have been accumulated to a designated level, we will engage external licensed chemical waste collectors for recycling management for proper waste disposal.

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For the two years ended 31 March 2013 and 2014 and for the six months ended 30 September 2014, we incurred approximately HK\$6,000, HK\$13,000 and HK\$4,000 respectively for the implementation of environmental protection measures, which represented approximately 0.01%, 0.02% and 0.01% of our total revenue for the respective period. Our Directors believe that the future cost of compliance with the applicable environmental laws, regulations and ordinances, or exposure to liability for environmental claims, will not be substantial and will not have a material adverse impact on our business operations or financial position.

15. REGULATORY COMPLIANCE

Non-compliance of IRO

Pursuant to section 51 of IRO, an assessor of the IRD may give notice in writing to any person requiring him within a reasonable time stated in such notice to furnish any return which may be specified by the Board of Inland Revenue for profits tax.

SLL was established by Mr. Alastair Lam in December 2008 and two other Directors, Mr. Mansfield Wong and Mr. Arthur Lam, officially joined SLL only in July 2009. At the beginning, its management devoted most of their time to development and generation of new businesses and securing new clients, sourcing supplies from suppliers, planning and management to ensure a viable business model, and controlling the costs of business due to the limited startup capital. As the business scale of SLL was comparatively small in its formative years, its management endeavored to control costs by hiring a small team of staff who concentrated their time and effort on business development and project planning for SLL. SLL also incurred net loss for the financial year ended 31 March 2010 and as no taxes were payable for that financial year, its directors were under the mis-conception that tax filing for that financial year was not required notwithstanding that a notice to file the Return for Profits Tax was issued to SLL on 4 June 2010 to be filed by 4 September 2010.

Although SLL subsequently approached advisers to provide accounting services, their services involved advice on accounting treatment issues relating to the business of SLL as its business model is quite unique in Hong Kong and professional advice was needed on such accounting issues. The scope of services did not include the filing of taxation returns or taxation related matters, as the Directors considered that no tax filing is required for the financial year ended 31 March 2010 with no taxes payable, hence SLL did not obtain separate advice from them to apply for an extension for tax filing. It was not until September 2011 when SLL received a Summons to appear in the Eastern Magistrates' Court for late tax filing that its directors realised that tax filing for the financial year ended 31 March 2010 was required despite there was tax losses for that financial year. Immediately, SLL appointed auditors in October 2011 to prepare audited financial statements for the year ended 31 March 2010. SLL then attended the Eastern Magistrates' Court on 30 November 2011 and was fined HK\$2,000 for the late tax filing. As more time is needed to prepare the audited financial statements and tax return, an application for extension was made on 30 December 2011 but was rejected by the IRD on 10 January 2012. Our Group then took the initiative to prepare the financial statements and liaised with the auditors to prepare the audited financial statements of SLL for the three financial years ended 31 March 2010, 2011 and 2012 and to notify the IRD the chargeability of tax for SLL for the years of assessment 2010/2011 and 2011/2012. Although SLL was profitable for the year of assessment 2010/2011, due to the Directors' unfamiliarity with the requirements of the IRO at that time, the Directors were awaiting a notice from the IRD to furnish a tax return to the IRD for that year of assessment, and were not aware that despite SLL not receiving any such notice, SLL was still required to inform the IRD of its chargeability of tax not later than four months after the end of that year of assessment under section 51(2) of the IRO. The personnel involved in the above non-compliance incident was an ex-employee who was the then financial controller of SLL.

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Our Group finally filed SLL's Return for Profits Tax for the financial year ended 31 March 2010 in September 2012. Our Group had received profit tax returns for 2010/2011 and 2011/2012 dated 4 February 2013 for SLL. Our Group had completed and filed the said returns to the IRD on 25 February 2013.

Our Group was advised by our Hong Kong legal adviser, that as SLL failed to file a profits tax return by the filing deadline for the year of assessment 2009/2010 and to notify chargeability to tax within the deadline for the year of assessment 2010/2011, it may be prosecuted under section 80(2) of the IRO. The offence is subject to a fine up to HK\$10,000 and treble the amount of the tax undercharged. As an alternative to proceeding with a prosecution, the Commissioner of Inland Revenue might assess additional tax under section 82A of the IRO. The maximum amount of additional tax payable under section 82A of the IRO is treble the amount of the tax undercharged. The maximum amount of tax penalty for the late filing and failure to notify chargeability to tax that could be imposed by the IRD is approximately HK\$6.6 million (which is HK\$10,000 and three times the profits tax payable by SLL for the tax year ended 31 March 2011). Such matter has been disclosed as contingent liability of our Group.

As at the Latest Practicable Date, the assessment of nil, HK\$2.2 million and HK\$4.2 million Profit Tax for the year of 2009/2010, 2010/2011 and 2011/2012 have been received and fully settled respectively and there is no tax penalty notification received from the IRD. However, under section 80(3) of the IRO, we might still be liable to penalty under section 80(2) of the IRO if a complaint concerning such offence was made in the year of assessment or during which the offence was committed or within 6 years after the expiration thereof.

Mr. Mansfield Wong, Abundance and Mr. Arthur Lam, each being a Controlling Shareholder, will jointly and severally indemnify and keep the Group indemnified against any penalty that may be imposed on SLL for its breach of section 51 of the IRO under the Deed of Indemnity. Details of the Deed of Indemnity are set out in paragraph D1 of the Appendix IV to this [REDACTED].

The incident of late filing of tax return of SLL to the IRD in 2010 was the result of oversight and mis-conception. As it was not the result of commission of any fraud of any of the directors of SLL, or schemes designed to evade taxes, the Sponsor considers the late tax filings of SLL did not attribute any question on the character or integrity of the directors of SLL and would not affect the competence of the Directors under GEM Rules 5.01 and 5.02.

As the business of our Group having since grown to a more sizeable scale, our Group has engaged additional staff specifically assigned with the monitoring and handling of tax filings and other administrative filings and registrations required under applicable laws, and reporting periodically to our Group's management, with the aim to avoid a repeat of such incidents.

Since December 2011, we have employed our Chief Financial Officer, who is responsible for our Group's financial planning and management, and corporate governance. Moreover, we adopted certain internal control measures in September 2012 to prevent reoccurrence of late tax filing. Such internal control measures include (i) maintaining a register to record different natures of taxes to be filed, tax filing deadlines, responsible person and status, (ii) tax filing tasks being established as an electronic to-do list items for all staff in our Finance Department, and (iii) a reminder is set at least one month prior to the tax filing deadline. Our Chief Financial Officer will further send a reminder email to all staff in our Finance Department for preparation of tax filing in advance, and who will be responsible for submission of the tax filing documentation to the management for approval. Our Directors believe that with the supervision of and coordination by our Chief Financial Officer, the overall control in our internal control systems will be enhanced and the likelihood of late filing of return for profits tax would be minimised in the future.

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Our Directors had taken a few remedial actions in December 2012 to avoid any further breach of directors' duties including (1) aside from business planning, segregate a portion of the time to oversee operations and compliance of laws and regulations by the companies within our Group, and (2) attended directors training on the GEM Listing Rules and the Hong Kong companies law held by our Hong Kong legal advisers in December 2011, March 2013 and December 2014, and attended directors' training on tax compliance in Hong Kong held by our tax representative in August 2013. We have also designated Mr. Mansfield Wong, the Chairman, Chief Executive Officer and executive Director of our Group, as the compliance officer of our Group to oversee all compliance matters.

Our Directors will continue to comply with all regulatory requirements and devote all their attention to the affairs of our Group. To ensure that the various companies incorporated in Hong Kong within our Group are able to file Profit Tax return with the IRD on time in the future, our Group has adopted internal control measures to prevent the recurrence of late tax filing.

Going forward, our Group's audit committee which comprises of three independent non-executive Directors namely Mr. Chung Koon Yan, Mr. Cheung Yick Hung Jackie and Dr. Wong Chi Ying Anthony will be responsible for reviewing the financial statements and making advice in respect of financial reporting and overseeing internal control procedures of our Group. This can further enhance the compliance of all regulatory requirements by our Group.

Non-compliance of TMO

Pursuant to section 94 of the TMO, a person commits an offence if he, knowingly or has reason to believe that the representation is false, falsely represents that a sign is a registered trade mark or makes a false representation as to the goods or services for which a trade mark is registered. For the purpose of section 94 of the TMO, the use in Hong Kong in relation to a trade mark of the word "registered" or any other word or symbol importing a reference to registration, either expressly or impliedly, is deemed to be a representation as to registration.

Due to our misunderstanding of the relevant law, our Group had inadvertently put the symbol ®, which is a symbol importing a reference to registration of a trade mark, next to the text "Tube-in-Tube" on our Group's website, marketing materials and certain documentations. The symbol "®" had never been used on any of the Group's products at any point of time. It was used on our Group's marketing materials from January 2011 until August 2012 and on our Group's website from August 2011 to August 2012. Our Directors confirmed that there is no revenue derived from any of our Group's products using the symbol ®. In around August 2012, we had been advised by our Hong Kong legal advisers as to intellectual property rights that our use of the symbol ® is against section 94 of the TMO. We have ceased using the symbol ® next to the text "Tube-in-Tube" on our websites and all our marketing materials and documentations. The personnel involved in the above non-compliance incident was Mr. Arthur Lam, our executive Director.

Our Group was advised by our Hong Kong legal advisers as to intellectual property rights that we are liable to a fine at level 3, i.e. of HK\$10,000 for use of the symbol ®. Based on the available information, we estimate that there is a slight possibility that we will be penalised due to the non-compliance incident described above. Our Directors are of the view that such incident will not have any material adverse impact on our business, financial condition and results of operations. Hence, we have not made provisions for the non-compliance incident above.

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After we were advised by our Hong Kong legal advisers as to intellectual property rights that our use of the symbol ® contravenes the TMO, we have ceased using the symbol ®. We further adopted certain internal control measures in January 2013 (which is updated from time to time) to prevent recurrence of similar incidents in the future. Such internal control measures include a senior executive being delegated to prepare and maintain a complete list of intellectual property rights (including trade marks, patents, copyright, design and domain names) of our Group, and the same will be approved by the management and will be updated from time to time to ensure that the information in the list is accurate and up to date. Our Directors will have ready access to the list. Moreover, standard protocol will be implemented before the launch of any updated website/promotional materials/packaging materials/new products, where Mr. Cheng Chi Kuen, the Chief Operation Officer is delegated to cross check the list of intellectual property rights of our Group. Furthermore, all of our Group's website contents are now being stored in the Group's encrypted and dual password protected MySQL database and only the web administrator and the Chief Operation Officer together can log in to the database to make changes. The Chief Operation Officer will also take on the final verification role for any changes of the website and the marketing materials to make sure they comply with the relevant regulations before they are launched to the public. We also issued an internal memorandum to our staff instructing them not to use or apply the symbol ® to the text "Tube-in-Tube" on our website, marketing materials and all documentations. We also educated our staff the importance of the intellectual property rights and the consequences of any non-compliance thereof, with a view to minimise the risk that our Group will face in relation to any breach of the TMO by posting internal memorandum to our staff.

Our Directors confirm that, during the Track Record Period and up to the Latest Practicable Date, other than the above-mentioned, our Group had complied with all applicable laws and regulations in the jurisdictions in which it operates and has obtained all the necessary permits, certificates, registrations and licences for our operation since the establishment of our Group.

We were advised by our Hong Kong legal advisers that we have obtained and currently maintain all necessary permits, certificates, registrations and licences which are material to our business in Hong Kong during the Track Record Period and up to the Latest Practicable Date.

Review by the Internal Control Consultant

In preparation for the [REDACTED], we have engaged an internal control consultant (the "**Internal Control Consultant**"), to conduct a comprehensive review of our Group's internal control system as described in the paragraph headed "Internal control measures for legal and GEM Listing Rules compliance" below in this section. The Internal Control Consultant noted that we have implemented all the major recommended internal control measures.

Views of our Directors and the Sponsor

Notwithstanding the key historical non-compliance incidents disclosed in this [REDACTED], in view of the rectification actions taken by us, the adoption of all of the major recommendations made by the Internal Control Consultant, and the enhanced internal control measures which had been adopted and implemented by us to the satisfaction of the Internal Control Consultant to avoid recurrence of the above non-compliance incidents, our Directors are of the view that our Group's internal control system is adequate and effective. After reviewing the internal control report, the rectification actions taken by us, and the enhanced internal control measures adopted and implemented by us to the satisfaction of the Internal Control Consultant, the Sponsor concurs with our Directors' view.

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Furthermore, having considered the facts and circumstances leading to the non-compliance incidents as disclosed in this section of this [REDACTED], their nature and materiality, the rectification actions taken and our Group's internal control measures to avoid recurrence of these non-compliance incidents, our Directors are of the view that these past non-compliance incidents do not involve any dishonesty on the part of our Directors. Furthermore, our Directors are of the view that the non-compliance incidents were due to inadvertence in which those Directors who are involved did not breach the relevant laws and regulations deliberately or intentionally. Hence, our Directors are of the view that they have the character, experience, integrity and competence and their involvement in these past non-compliance incidents do not affect their suitability to act as directors of a listed issuer under Rules 5.01, 5.02 and 11.07(1) of the GEM Listing Rules, and the suitability for [REDACTED] of our Company under Rule 11.06 of the GEM Listing Rules. Further, our Board include member who is a professionally qualified accountant, namely Mr. Chung Koon Yan, our independent non-executive Director, who has extensive experience in financial and compliance matters of listed companies. We will also engage external professional advisers to advise us on compliance matters. Our Directors are of the view that the above measures will prevent future occurrence of non-compliance incidents. Based on the above, the Sponsor concurs with our Directors' view.

16. INTERNAL CONTROL MEASURES FOR LEGAL AND GEM LISTING RULES COMPLIANCE

Our Group has adopted our internal control procedures, systems and controls, including accounting policies and legal compliance measures. In particular, we have taken the following measures to ensure compliance with the applicable laws and regulations and the GEM Listing Rules:

- (a) We have engaged an independent Internal Control Consultant in October 2014 to review and comment on the internal control policies, procedures and controls of our Group including corporate level controls, financial reporting and disclosure controls and business activity level controls, and provide recommendations for improving our internal control system. We have adopted and implemented the additional measures advised and recommended by the Internal Control Consultant to strengthen the internal control system, which include further strengthening of our board meeting filing system and monitoring of credit limit.
- (b) We have appointed a tax representative (which is a consultancy firm that specializes in, amongst others, offering cross-border taxation advisory services in Hong Kong) to advise and handle the relevant matters in relation to IRO. We have also engaged a legal adviser as to laws of patent and trademark to assist and advise our Group in handling the matters in relation to TMO.
- (c) We have arranged trainings for our Directors on the applicable laws and regulations, which include training on GEM Listing Rules and the Hong Kong companies law by our Hong Kong legal advisers in December 2011, March 2013 and December 2014 and training on tax compliance in Hong Kong by our tax representative in August 2013.
- (d) We have designated Mr. Mansfield Wong, the Chairman, Chief Executive Officer and executive Director of our Company, as the compliance officer of our Company with the assistance of the Chief Operation Officer and the Chief Financial Officer to oversee all compliance matters.
- (e) A compliance adviser is engaged in March 2015 to advise our Group on matters relating to the GEM Listing Rules and the SFO. Our Group will also seek for legal opinion and advice from legal advisers when issues on other laws and regulations arise.
- (f) We have also formed the Audit Committee in March 2015, which will be responsible for reviewing the financial statements and making advice in respect of financial reporting and oversees internal control procedures of our Group.

The Board considered the foregoing measures are sufficient and effective to ensure our compliance with the applicable laws and regulations in the future. Our Directors and senior management would monitor the internal control policies on a regular basis which will be reviewed by our audit committee and external auditors.

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17. RECOGNITION AND AWARDS

Our "Tube-in-Tube" Fluorescent Lamp technology had been granted the following awards and accreditations:

Awards/Accreditations	Granting organisation	Date
Gold Award	PRC National Exhibition of Inventions	2005
Hong Kong Awards for Industries Consumer Product Design – Certificate of Merit	Federation of Hong Kong Industries	2005
Bronze Medal Award	Taipei International Invention Show and Technomart Invention Contest	2 September 2006
Outstanding Chinese Patented Invention Award	State Intellectual Property Office of the PRC	October 2009

Our Group members had been granted the following accreditations in recognition of our success and achievements:

Awards/Accreditations	Name of Company	Granting organisation	Date
Outstanding Green Excellence Awards	SLL	CAPITAL magazine and South China Media	2009
Capital Entrepreneur Green Enterprise Awards – 1st Runner up	SLL	CAPITAL Entrepreneur magazine	2010
The Best SME Partners 2010	SLL	Economic Digest	2010
Prime Awards for Eco-Business	SLL	Prime magazine and Business Environment Council	2010
Productwise Label Awardee "Class of Good" Productwise Label	SLL	Hong Kong Awards for Environmental Excellence	2010
"Power Smart" Biggest Recommendation Certificate (Company)	Our Company	Friends of the Earth (HK)	2012

18. COMPETITION

According to the Ipsos Report, we are the fourth largest energy management contract provider for lighting projects in Hong Kong in terms of total revenue of the energy saving and management solutions industry for the year ended 31 December 2013. For details, please refer to the section headed "Industry Overview – Competitive analysis of energy saving and management industry for lighting projects in Hong Kong" in this [REDACTED].

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According to the Ipsos Report, the overall energy saving market in Hong Kong is quite fragmented, however, ESCOs dominate the market for EPC projects. The lighting EPC market in Hong Kong is dominated by approximately 15 ESCOs, generating estimated revenue of HK\$472 million from lighting EPC projects in 2013. Three of these ESCOs specialise in lighting and either produce or supply LED and T5 lighting products, among which our Group is one of them.

The top 5 ESCOs providing EPC services in lighting projects in Hong Kong account for approximately 47% of the total revenue of the energy saving and management solutions industry in 2013. As of 2013, our Group holds approximately 3.5% market share of the energy saving and management solutions industry, and approximately 5.8% market share of the energy saving and management solutions for lighting industry.

We are a Hong Kong based group which provides comprehensive solutions to reduce energy consumption in general lighting without requiring any upfront investment from our customers. We believe that competition in this market is based on the following principal factors: (1) the range and quality of the products offered; (2) ability to launch new and relatively more efficient products to the market; (3) pricing; (4) length of service; and (5) customer service.

According to the Ipsos Report, the majority of players in Hong Kong's energy saving market only provide limited services, such as energy auditing, or consulting services and they often do not offer installation and EPC services for retrofitting projects. As an integrated energy saving solutions provider specialising in lighting solutions and possess a full range of capabilities which allows us to provide a broad range of services, we believe we can be distinguished from our competitors.

In terms of our products offered, according to the Ipsos Report, currently none of the key ESCO competitors with production capacity has comparable patented technology in the Tube-in-Tube segment which, combined with our OEM capabilities, constitutes another competitive advantage of our Group. Our Group is able to offer easy adoption and sustainable solutions for retrofit works with "Tube-in-Tube" Fluorescent Lamps, meaning its installation does not require replacement of the existing lighting fixtures and thus reducing upfront investment, whereas, according to the Ipsos Report, most energy saving lighting solutions would normally require replacement and/or modifications of lighting fixtures that are relatively more time consuming with higher costs. This is advantageous for us compared with competitors that offer only LED or standard T5 products.

A solid track record is important for demonstrating capability, capacity and trust to potential customers. Our proven track record of leasing services in Hong Kong, as demonstrated by the favourable market responses concerning our business model we received from our customers, which include reputable and/or multi-national corporations in Hong Kong, makes it a distinguishing factor when comparing with our competitors.

In terms of pricing, and taking into account that many of our customers are costs conscious, our leasing services generally do not require any upfront costs from them. Instead, we will take care of the initial deployment and installation of our lighting products and only share the benefits of the energy savings. Our zero upfront strategy provides an attractive element for our customers to consider entering into EMCs with us.

In view of the substantive initial deployment and installation, our EMCs are usually medium to long term in nature and generally last for three years. This in turn may create an entry barrier for potential competitors to take away our existing customers, because customers may not wish to carry out initial tests and feasibility studies all over again for other products and their possible savings.

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Further, according to the Ipsos Report, as of December 2014, none of the key ESCO competitors for lighting projects in Hong Kong are publicly listed, making it an advantage to be publicly listed and having access to the stock market for refinancing.

Despite of a huge potential for the energy saving business, there are still market barriers. For details, please refer to the section headed "Industry overview – Competitive analysis of energy saving and management industry for lighting projects in Hong Kong" in this [REDACTED].

For overseas markets where we engage in trading of lighting products, we believe the lighting products markets are highly competitive. Nevertheless, we are confident that our lighting products perform better than other similar products available in the market by consuming less power yet providing more luminosity without additional cost for changing the existing lighting fixture.

However, we may face pricing pressure as other manufacturers may adjust and reduce the prices of their products in order to compete with ours. Also, we do not have established wholesale and retail networks for our products and this may put us in a disadvantaged position in the retail sale of our lighting products where our products may not become generally available to general public.

19. LEGAL PROCEEDINGS

During the Track Record Period and up to the Latest Practicable Date, our Directors confirm that, neither our Company, any of our subsidiaries nor our Directors and senior management is engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim of material importance is known to our Directors to be pending or threatened by or against our Company or any of our subsidiaries or our Directors and senior management, that would have a material adverse effect on our results of operations or financial condition.