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OVERVIEW

We are a discrete semiconductor manufacturer with a primary focus on applications for smart consumer electronic devices. We are principally engaged in the assembly, packaging and sales of our self-manufactured discrete semiconductors and trading of semiconductors sourced from third-party suppliers. Our self-manufactured products are used in consumer and industrial portable electronics such as mobile phones, display monitors, LED televisions, portable electronic equipment and power supplies manufactured by OEM/ODM manufacturers for well-known consumer electronic brands such as Samsung, LG, BYD, Rftech and Skyworth. Our self-manufactured products mainly encompass four categories of discrete semiconductors including diodes, transistors, rectifiers and transient voltage suppressors, which are assembled and packaged in a variety of packages. We have also deployed the fourth generation discrete semiconductor packaging technology to manufacture ultra-small thin profile near chip scale leadframe DFN series packages, which according to Prismark, represent the newest discrete semiconductor packaging technology and are becoming one of the lowest cost and most practical packages for discrete packaging.

We started off as a trading company engaged in the distribution of semiconductors sourced from third-party suppliers in December 2012. Since our production facilities commenced operations in September 2013, our turnover derived from sales of our self-manufactured products as a percentage of our total turnover increased from approximately 24.9% for the year ended 31 December 2013 to approximately 50.7% for the year ended 31 December 2014 and further increased to approximately 65.3% for the three months ended 31 March 2015. Our trading products primarily include semiconductors that our customers specifically require, however, are not manufactured by us. Only in certain occasions, when the supply of our self-manufactured products is insufficient to meet our customers' need, which happens mostly before or at the initial stage of the launch of commercial production of our self-manufactured products, our trading products may overlap with our existing self-manufactured product offerings. We generally are no longer engaged in pure trading of semiconductors, but rather act as a solution kits integrator. We source our trading products from third-party suppliers primarily to satisfy our customers' solution kits requirement. We usually try to fulfil our customers' solution kits from our existing self-manufactured products. Our sales and marketing staff with knowledge of the specifications and features of our self-manufactured products will also make an effort to recommend to our customers alternative parts or components from our self-manufactured products. By doing this, we try to provide a relatively cost-effective solution without requiring any major modifications to the customers' original designs. To complement sales of our self-manufactured products, upon request of our customers, we will also assist them in sourcing from third-party suppliers any parts or components still outstanding from the solution kits and sell those products sourced from third-party suppliers without modification along with our self-manufactured products to our customers as a package. Our value-added solution kits services aim to enable our customers to maximise their cost effectiveness, minimise their turnaround time and ensure the suitability of semiconductors for their end-products.

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We also provide tailor-made engineering solutions services that cater for our customers' product design needs by utilising our proprietary know-how of the products we manufacture. With the specialised application knowledge of our engineers, we develop and introduce new designs and engineering solutions to cater for our customers' needs. Although we amortise our value-added engineering solutions services into our unit sales prices and do not record them as separate sources of turnover, we believe that they have enabled us to create demand for our products.

We believe that our understanding of our customers' needs and our ability to deliver high-quality products and value-added solution kits services and engineering solutions services have been the key to our success in maintaining stable relationships with our existing customers and attracting new customers. Such customer relationships have also provided us with opportunities to interact and converse with our customers. We believe such opportunities allow us to stay abreast of the latest technology and to acquire the knowledge needed to update the design of our products with market appeal for our further business development. Notwithstanding a short history of less than three years, we have already attracted over 90 customers located mainly in the PRC, Hong Kong, Korea, Thailand, Vietnam, Taiwan and Japan as at the Latest Practicable Date.

We have significantly grown our turnover from approximately HK\$45.7 million for the year ended 31 December 2013 to approximately HK\$159.3 million for the year ended 31 December 2014, representing an increase of approximately 248.6%, or HK\$113.6 million. Our turnover also grew from approximately HK\$23.3 million for the three months ended 31 March 2014 to approximately HK\$49.0 million for the three months ended 31 March 2015, representing an increase of approximately 110.3%, or HK\$25.7 million. We have also successfully increased our gross profit margin from approximately 18.8% for the year ended 31 December 2013 to approximately 26.9% for the year ended 31 December 2014, and from approximately 24.2% for the three months ended 31 March 2014 to approximately 32.6% for the three months ended 31 March 2015.

OUR COMPETITIVE STRENGTHS

We believe that the following competitive strengths have contributed to our success:

Reputation as a high-quality manufacturer of discrete semiconductor packages

We believe we enjoy a strong reputation with our customers for our reliability and ability to provide high-quality products consistently. We have maintained the quality of our products by implementing relatively stringent quality control procedures. We emphasise quality and reliability in the manufacture of our products. We have established quality assurance standards to meet our customers' requirements. Our quality control team is responsible for ensuring that raw materials, semi-finished and finished products used or produced by us pass through our quality control processes and meet our standards. To ensure our product quality, our raw material procurement policy is to select only those suppliers on our approved list who have passed our quality control tests and have a satisfactory record of quality and on-time delivery. We also monitor our manufacturing processes, and conduct performance and reliability testing in an attempt to ensure

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that our products have a low defect rate and meet the expectations of our customers. In addition, we communicate regularly with our customers to obtain feedback on the quality standards of our products. In recognition of our quality assurance systems, our production facilities certified in relation to our quality management systems (ISO 9001:2008) in January 2014, hazardous substance process management system requirements (IECQ QC080000:2012) in November 2014, environmental management system (ISO 14001:2004) in June 2015 and occupational health and safety management system (OHSAS 18001:2007) in August 2015.

Ability to provide value-added solution kits services and engineering solutions services

We constantly strive to differentiate ourselves from our competitors through providing value-added services that complement our product sales, such as making technical recommendations, matching products to the requirements of a solution kits and providing engineering solutions for specific applications. We have established a special product development team composed of 10 personnel from various departments, including sales and marketing, production, procurement and quality control, who follow the APQP procedures that involve inter-department cooperation. Our marketing staff, with their specified knowledge of the specifications and features of our self-manufactured products, is capable of recommending suitable semiconductors for specific applications of our customers' end design. Furthermore, we offer engineering solutions for our customers' needs from initial concept and design to the manufacturing, installation and testing of end-products. Our value-added services aim to help our customers introduce innovative designs, reduce their time-to-market, and enhance their overall competitiveness.

We believe that our proactive approach in providing value-added engineering solutions services have enabled us to create demand for our products. In addition, our interaction with our customers allows us to understand their immediate and future packaging needs, which is relevant to our new product development. We believe that our capabilities to provide value-added services to our customers represent our core competitive strengths and will continue to play a major role in our business going forward.

Ability to provide high-quality customer service

We believe that our focus on offering quality customer service is an important factor in attracting and retaining OEM/ODM manufacturers for leading consumer electronic brands as our customers, and has been a key contributor to our growth. We have established a service-oriented and customer-focused culture, which we believe has better positioned us to anticipate and meet the requirements of our customers on a timely basis, mainly in the following key areas:

- flexibility in providing customised solutions and in production scheduling;
- strict adherence to high-quality technical specifications;

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- prompt and knowledgeable responses to customer inquiries and timely attention to requests for technical assistance by qualified professionals;
- responsiveness to customers' requirements in terms of lead time and product cycle time; and
- timely delivery of products in the required volumes.

Equipped with technologically advanced production lines and strong technology expertise

We possess technical expertise in processing discrete semiconductor packaging technologies for the manufacture of customisable semiconductor packages that satisfy our customers' evolving specifications. We believe that the semiconductor industry is fast-changing, therefore, the availability of advanced, flexible, cost-saving and effective production lines are our key to success. The key equipment and machinery of our production lines are mainly imported from reputable industry suppliers headquartered in Japan and Singapore. According to Prismark, these equipment and machinery are typically more efficient with sufficient accuracy to produce the packages they are designed for. We believe that these equipment and machinery enable us to produce at lower costs but with better and more stable quality. Moreover, we believe our ability to offer customisable products is crucial to our continued success because it enables us to satisfy multiple end-market product requirements and the diverse specifications of our customers.

Strong and stable management team with extensive industry experience

Our senior management team possesses in-depth knowledge of the business and operating environment of the electronic industry. Our co-founders, Mr. Chow Hin Keong and Mr. Chow Hin Kok, possess about 25 years and 19 years of experience in the electronic components distribution industry respectively. Over the years, they have also accumulated in-depth knowledge of semiconductor products and stayed abreast of industry development and relevant market trends. We believe that the experience and expertise of our management team are essential to our success and will be critical in implementing our key strategies in the future. In addition, we also have an experienced team of executive officers, each of whom has an average of 15 years of experience in their respective areas of expertise. For more information about our Directors and senior management, please refer to the section headed "*Directors, Senior Management and Staff*" of this prospectus.

OUR BUSINESS OBJECTIVES AND STRATEGIES

We intend to continue to build our competitive strengths to increase market share and profitability. To achieve this goal, we plan to implement the following business strategies:

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Continue to increase sales of our self-manufactured products and penetrate markets with growth opportunities

Our products are priced on a cost-plus basis and we generally achieve a higher gross profit margin on our self-manufactured products than our trading products. Our gross profit margin for sales of self-manufactured products for each of the two years ended 31 December 2013 and 2014 and the three months ended 31 March 2015 were approximately 44.6%, 39.8% and 42.7%, respectively, while our gross profit margin of trading products sourced from third-party suppliers were approximately 10.2%, 13.7% and 13.6%, respectively, for the same periods. We intend to continue to improve our profitability through offering more self-manufactured products to attain a higher overall gross profit margin. We will continue to invest in production lines and equipment. Given that the production capacity of some of our products are close to saturation, we plan to further expand our production facilities and increase our production capacity by adding new machineries including wire bonders, die bonders, moulding machines, trimmers, laser markers and handlers. Please refer to the section headed “*Future Plans and Use of Proceeds*” for details of our expansion plan. As at the Latest Practicable Date, we have no plan to expand through acquisition and have not identified any acquisition targets.

Notwithstanding a short history of less than three years, we have already attracted over 90 customers located mainly in the PRC, Hong Kong, Korea, Thailand, Vietnam, Taiwan and Japan as at the Latest Practicable Date. In order to further expand and broaden our customer base, we intend to increase our brand recognition and penetrate markets in which we expect economic growth and have experienced growth opportunities, such as Korea, Taiwan, Japan and the PRC. We plan to achieve the above, through, among others, the following avenues:

- solicit new customers, in particular top tier consumer electronics manufacturers in the PRC;
- participate in electronic and computer products exhibitions to introduce our products and brands to potential customers;
- enhance our website to include more information to showcase our Group, our products and brands; and
- improve market exposure and visibility by placing advertisements in digital and print media targeted at wholesalers and agents of semiconductor products.

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Continue to introduce technologically advanced products and diversify our presence in industries which we consider having high potential

As the semiconductor industry has evolved to meet the requirements of high-performance miniature portable electronic products, we believe that there will continue to be a growing demand for packages with increased input/output density, smaller size and better heat dissipation characteristics. We intend to continue deploying advanced fourth generation discrete semiconductor packaging technology to produce sufficiently advanced products at competitive prices. We intend to continue leveraging our flexibility by adjusting our production processes to introduce the ultra-small thin profile near chip scale leadframe DFN series packages, which according to Prismark, represent the newest discrete semiconductor packaging technology and are becoming one of the lowest cost and most practical packages for discrete packaging. We have successfully commenced commercial production of two types of DFN series packages in 2014. The DFN series products are designed for light weight portable electronic devices such as mobile phones and tablets, where size and performance characteristics are critical. We are also in the process of introducing more DFN series products and expect to commence mass production for our new product DFN0603 in 2015, which is of a size of 0.61 mm × 0.32 mm × 0.3 mm, about half the size of our existing DFN series products already in commercial production. In addition to our continuous efforts to offer additional ultra-small, thin profile near chip scale leadframe packages, we have deployed clip bonding technology to further improve thermal ability of our products and we are also following the market demand to migrate from gold wire bonding to copper wire bonding in order to lower our manufacturing costs.

We also intend to leverage our established and growing reputation to attract new customers in the consumer electronics industry and continue to diversify our presence in industries which we consider having high potential. We target to expand into high-growth end-market applications, among others, in automotive, medical and healthcare equipment and devices. We also plan to further expand our operations to match the growth of these targeted industries.

Continue to focus on value-added services to customers

We believe our strategy of providing value-added services tailor-made to suit our customers' requirements has been one of the keys to our success and will continue to be an important factor in our growth. We aim to continue our strategy of deepening relationships with our customers by leveraging our technical expertise to offer product feasibility and optimisation advice in the early stages of our customers' product design process, often prior to the placement of orders. Through this approach, we believe that we will be able to maintain our competitive edge by understanding our customers' respective requirements, product features, production processes and plans for the future as well as the trends of various industries. We intend to leverage such understanding to provide products and services that are highly tailored to our customers' production processes.

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We intend to maintain and continue to build our knowledge base of designs and engineering solutions to expand the range of value-added services and strengthen the quality of products and services we deliver. To achieve this goal, we intend to increase our investment in our engineering teams and to recruit additional experts to enhance our application and development capabilities so that we can offer the most efficient value-added services to our customers. We will also strengthen our inter-departmental cooperation to keep our product offerings and market intelligence up-to-date in order for our application and development engineers to develop and introduce new designs and engineering solutions that would help our customers to stay abreast of the latest developments in technology.

Continue to attract and retain top talent in the industry

As we constantly strive to differentiate ourselves from our competitors through providing value-added services that complement our product sales, the availability of engineering and sales talent is key to our success in the industry. We continuously seek to attract and recruit engineers and technicians who possess the knowledge and experience in different application segments, as well as sales staff who have in-depth knowledge in handling foreign and domestic suppliers and customers. We will further enhance our customer services to strengthen customer loyalty.

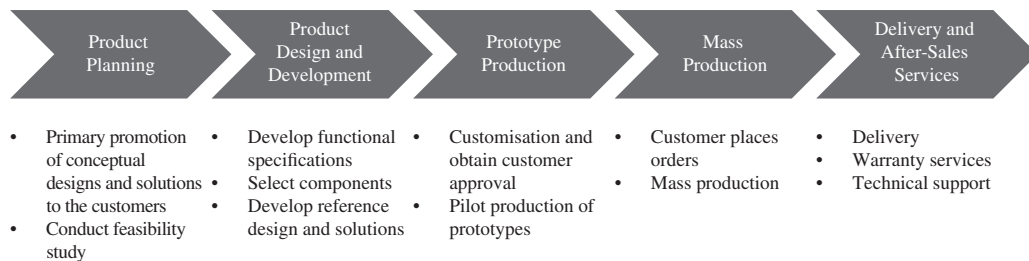
We offer our employees opportunities and career development through our internal training programmes to continuously enhance their technical and management skills, as well as their industry knowledge. Our employees are encouraged to develop their individual potential, with a view to enhancing the overall team capability and customer services.

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OUR BUSINESS MODELS

Manufacturing Business

We are primarily involved in the packaging, also called assembly, and testing processes of semiconductor manufacturing. The following diagram depicts our workflow in manufacturing and sales of our self-manufactured semiconductors. Our workflow could be initiated by a customer who, directly or through our third-party agent, requests us to assist it in fulfilling particular functional specifications of the end-product it manufactures, or at our own development initiatives to introduce new products that might be of interest to our existing or potential customers to deploy into their end-products so that they could stay abreast of the latest developments in technology.



Product Planning

In some cases, at our own development initiative, or in some other cases, upon a customer giving us a general idea of their product concept, we can develop conceptual designs and solutions for our customers. Our marketing team then communicates with our customers, either directly or through our third-party agent, with the proposed designs to understand their specific requirements and concerns.

Product Design and Development

Based on the proposed conceptual designs and solutions, our product development team and production engineers develop functional specifications for the proposed designs and solutions, and select the most suitable raw materials to fulfil the proposed designs and solutions. Our product development team will then prepare a product development plan which, among other things, sets out the design goals, reliability and quality goals, preliminary bill of materials and preliminary process flow for our customer to consider.

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Prototype Production

Our production engineers may further customise such design to fit in the customer's products to ensure it contains the features of such customer's end-products and ensure compliance with any performance requirement and industrial standards while our quality control team conducts review on the process flowchart developed by our product development team. After obtaining a customer's final approval of the product development plan, we will produce a small amount of prototypes for any newly developed products to be deployed into the design and conduct various tests on prototypes to ensure product reliability and compatibility with the customer's end product.

Mass Production

Our customers usually place orders with us to purchase our self-manufactured products which, in some cases, are bundled with other semiconductors sourced from third-party suppliers. After a purchase order has been placed by our customer, we will usually proceed with mass production of the relevant products.

Delivery and After-sales Services

After production, we will co-ordinate the delivery of products to our customers. We provide after-sales services, including warranty and/or technical support to customers of all our branded products.

Generally, we do not charge a separate fee for the value-added pre-sale engineering solutions services. We believe that our proactive early involvement enables us not only to better understand our customers' needs but also to provide practical and innovative solutions to our customers with a view to helping them minimise costs and improve the functionality and quality of their products. We believe that such understanding also enables us to provide more accurate quotations to our customers. Our proactive involvement also provides an opportunity for us to showcase our capabilities and expertise and has enabled us to create demand for our products. In addition, our interaction with our customers allows us to understand their immediate and future packaging needs, which is important for the development of new products.

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Trading Business

To complement sales of our self-manufactured products, we are also engaged in trading of semiconductors sourced from third-party suppliers located primarily in Hong Kong and the PRC with whom we have established stable cooperative relationships. We started off as a trading company of semiconductors in December 2012. Since our production facilities commenced operations in September 2013, our turnover derived from sales of our self-manufactured products as a percentage of our total turnover increased from approximately 24.9% for the year ended 31 December 2013 to approximately 50.7% for the year ended 31 December 2014 and further increased to approximately 65.3% for the three months ended 31 March 2015. Meanwhile, our total turnover, as well as the turnover generated from our trading business, also grew continuously during the Track Record Period. Following the commencement of our manufacturing business, we generally are no longer engaged in pure trading of semiconductors, but rather act as a solution kits integrator. In building an end-product, our customers usually prepare a solution kit based on its build book for the end-product and would need to fulfil it from parts or components sourced from various third-party suppliers. Upon receipt of the solution kits requirement from our customers, we consolidate all the suitable semiconductors from our existing self-manufactured products. To complement sales of our self-manufactured products, upon request of our customers, we also assist them in sourcing from third-party suppliers any other parts or components that are still outstanding from the solution kits and sell those products sourced from third-party suppliers without modification along with our self-manufactured products to our customers as a package. Therefore, our trading products primarily include semiconductors that our customers specifically require, however, are not manufactured by us. Only in certain occasions, when the supply of our self-manufactured products is insufficient to meet our customers' need, which happens mostly before or at the initial stage of the launch of commercial production of our self-manufactured products, our trading products may overlap with our existing self-manufactured product offerings. For details of our value-added solution kits services, please refer to the sub-section headed “– *Products and Services Provided – Products Sourced from Third-Party Suppliers and Solution Kits Services*” in this section.

Through our one-stop-shop services including technical advice on suitable electronic components from our self-manufactured product offerings, and procurement from third-party suppliers of any other components that our customers may need to build their end-products, we believe our value-added solution kits services enable our customers to maximise their cost effectiveness, minimise their turnaround time and ensure the suitability of semiconductors for their end-products. Since our trading products are generally sold in solution kits specifically requested by our customers and most of the trading products we purchased from third-party suppliers represented semiconductors we did not manufacture, we consider that the sales of self-manufactured products will not affect our relationships with our suppliers in view of the potential competition.

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PRODUCTS AND SERVICES PROVIDED

We sell both self-manufactured products and products sourced from third-party suppliers to our customers. The following table sets out our turnover contribution by our two business segments during the Track Record Period:

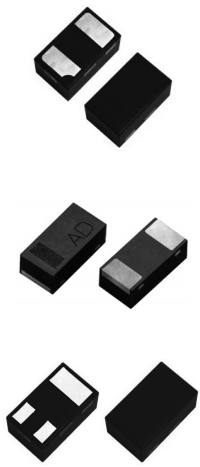

	Year ended 31 December				Three months ended 31 March			
	2013		2014		2014		2015	
	(HK\$'000)	% of total turnover	(HK\$'000)	% of total turnover	(HK\$'000) (unaudited)	% of total turnover	(HK\$'000)	% of total turnover
Turnover								
Manufacturing business	11,390	24.9	80,745	50.7	9,242	39.6	32,029	65.3
Trading business	34,295	75.1	78,578	49.3	14,067	60.4	16,994	34.7
Total	45,685	100.0	159,323	100.0	23,309	100.0	49,023	100.0

Self-Manufactured Products



We are primarily involved in the packaging and testing processes of the semiconductor manufacturing. Please refer to the sub-section headed “– *Manufacturing and Facilities – Overview of Semiconductor Manufacturing Process*” in this section for details of the major processes involved in the semiconductor manufacturing. Our self-manufactured products are used in consumer and industrial portable electronics such as mobile phones, display monitors, LED televisions, portable electronic equipment and power supplies manufactured by OEM/ODM manufacturers for well-known consumer electronic brands such as Samsung, LG, BYD, Rftech and Skyworth. Our sales to OEM/ODM manufacturers for these well-known consumer electronic brands collectively accounted for approximately 34.7%, 47.2% and 60.6% of our total turnover for each of the two years ended 31 December 2013 and 2014 and the three months ended 31 March 2015, respectively.

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Our self-manufactured products mainly encompass four categories of discrete semiconductors including diodes, transistors, rectifiers and transient voltage suppressors which are assembled and packaged utilising discrete packaging technologies of different generations to meet the requirements of our customers. The following table sets out the principal types of discrete semiconductor packages we manufacture and their respective features and applications:

Package types	Dimensions (mm ³)	Features	Discrete function and price range ⁽¹⁾ (HK\$ per thousand pieces)	Applications
DFN Series (Dual Flat Pack, No Lead) (including DFN1006-2B, DFN1006-2H, DFN1006-3H, and DFN 1608-2H) 	DFN1006-2B (1.0 mm × 0.6 mm × 0.38 mm) DFN1006-2H (1.0 mm × 0.6 mm × 0.48 mm) DFN1006-3H (1.0 mm × 0.6 mm × 0.48 mm) DFN1608-2H (1.6 mm × 0.8 mm × 0.5 mm)	<ul style="list-style-type: none"> • Thin profile and leadless surface mount package; • Designed for mounting on small surface; • Stable performance under high temperature; • Suitable for automated assembly processes; • Halogen and antimony free and RoHS compliant; • REACH compliant; • AEC-Q101 qualified. 	<ul style="list-style-type: none"> • Schottky barrier diodes (70.1 – 218.4) • Transient voltage suppressors (35.1 – 218.4) • ESD protection diodes (92.2 – 102.5) • Switching diodes (86.3 – 138.8) • Zener diodes (110.8) • NPN/PNP small signal transistors (95.0 – 98.2) • Schottky barrier rectifiers (195.0) 	Mobile phones, portable electronic equipment
SOD Series (Small Outline Diodes) (including SOD123FL, SOD123HE, SOD323 and SOD323HE) 	SOD123FL (3.7 mm × 1.8 mm × 0.98 mm) SOD123HE (3.7 mm × 1.8 mm × 0.98 mm) SOD323 (2.55 mm × 1.25 mm × 0.95 mm) SOD323HE (2.55 mm × 1.25 mm × 0.6 mm)	<ul style="list-style-type: none"> • Small and lead surface mount package is suitable for compact and high density surface mount design; • Small package for use in portable electronics; • Suitable for automated placement; • Halogen and antimony free and RoHS compliant; • REACH compliant; • AEC-Q101 qualified. 	<ul style="list-style-type: none"> • Fast recovery rectifiers (89.5 – 290.3) • Schottky barrier diodes (49.1 – 194.2) • Schottky barrier rectifiers (70.1 – 323.7) • Standard rectifiers (51.8 – 141.1) • Transient voltage suppressors (85.8 – 507.1) • Zener diodes (39.8 – 283.7) • High voltage switching diodes (49.9 – 119.8) • Switching diodes (33.5 – 62.6) 	Mobile phone adaptors, portable electronic equipment and power supplies

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Package types	Dimensions (mm ³)	Features	Discrete function and price range ⁽¹⁾ (HK\$ per thousand pieces)	Applications
<p>SOT Series (Small Outline Transistors) (including SOT23 and SOT26)</p> 	<p>SOT23 (2.92 mm × 1.3 mm × 1.05 mm) SOT26 (2.9 mm × 1.5 mm × 1.1 mm)</p>	<ul style="list-style-type: none"> • Surface mount package suitable for automated insertion; • Mounting cost and area can be reduced by 50% compared with older through-hole style package; • A wide variety of configurations are available; • Multiple diodes in one small surface mount package; • Halogen and antimony free and RoHS compliant; • REACH compliant; • AEC-Q101 qualified. 	<ul style="list-style-type: none"> • Darlington transistors (107.9) • Digital transistors (44.5 – 110.0) • High voltage switching diodes (46.6 – 78.0) • High voltage transistors (43.2 – 156.0) • MOSFETs (57.2 – 140.2) • NPN/PNP small signal transistors (26.5 – 230.9) • Regulators (124.8 – 188.8) • Schottky barrier diodes (42.1 – 86.3) • Switching diodes (33.6 – 91.3) • Zener diodes (45.2 – 390.0) • Transient voltage suppressors (213.6 – 546.0) 	<p>LED televisions, portable electronic equipment, display monitors and power supplies</p>
<p>LBF</p> 	<p>LBF (6.3 mm × 5.0 mm × 1.5 mm)</p>	<ul style="list-style-type: none"> • Glass passivated chip; • Possess high surge current capability; • Designed for surface mount application; • Simple installation due to small size; • Halogen and antimony free and RoHS compliant; • REACH compliant; • AEC-Q101 qualified. 	<ul style="list-style-type: none"> • Bridge rectifiers (170.4 – 348.4) 	<p>Small power supplies, portable power supplies and LED driver power supplies etc.</p>

Note:

- (1) The sales prices of our self-manufactured products vary depending on the functions of discrete semiconductors and types of packages encapsulate such discrete semiconductors.

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Products Sourced from Third-Party Suppliers and Solution Kits Services

Since our production facilities commenced operations in September 2013, we generally are no longer engaged in pure trading of semiconductors, but rather act as a solution kits integrator. We assist our customers in fulfilling most, if not all, of the semiconductors they require in their solution kits. Upon receipt of the solution kits requirement from our customers, we usually try to fulfil the solution kits first from our existing self-manufactured products. Our sales and marketing staff with knowledge of the specifications and features of our self-manufactured products will also make an effort to recommend to our customers alternative parts or components from our self-manufactured products. By doing this, we try to provide a relatively cost-effective solution without requiring any major modifications to the customers' original designs. To complement sales of our self-manufactured products, upon request of our customers, we will also assist them in sourcing from third-party suppliers any parts or components still outstanding from the solution kits and sell those products sourced from third-party suppliers without modification along with our self-manufactured products to our customers as a package. Although we sell our self-manufactured products and products sourced from third-party suppliers as one solution kit, we separately record the sales of self-manufactured products in our solution kit as revenue for our manufacturing business and the sales of products sourced from third-party suppliers as revenue for our trading business.

Engineering Solutions Services

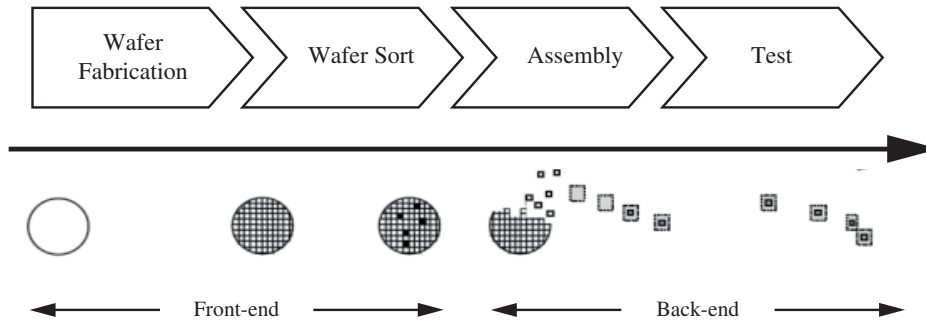
We have established a special product development team which is led by Mr. Luo Zongyou, our Quality and Processes Manager and composed of 10 personnel from various departments, such as sales and marketing, production, procurement and quality control. Members of our product development team have an average of six years of industry experience. Our product development team follows the APQP procedures, a framework commonly used for developing new products in the automotive industry. Nine members of our product development team have passed the APQP/PPAP Certification Examination and each obtained the APQP/PPAP certificate, which certifies an individual's proficiency in product quality planning and control plan guidelines. Our product development team offers pre-sale design, feasibility and optimisation advice with respect to components used in our customers' end-products. This advisory service involves inter-departmental cooperation. Our engineering solutions cater for our customers' needs from initial concept and design to the manufacturing, installation and testing of end-products. Our value-added services aim to help our customers introduce innovative new designs, reduce their time-to-market, and enhance their overall competitiveness.

Although we amortise our value-added engineering solutions services into our unit sales prices and do not record them as separate sources of turnover, we believe that they have enabled us to create demand for our products. In addition, an interaction with our customers allows us to understand their immediate and future packaging needs, which is important for the development of new products.

MANUFACTURING AND FACILITIES

Overview of Semiconductor Manufacturing Process

The manufacturing of semiconductors is a process that requires relatively sophisticated engineering and manufacturing expertise. We are primarily involved in the packaging, also called assembly, and testing processes of semiconductor manufacturing. The following diagram illustrates the major processes involved in the semiconductor manufacturing:



- Wafer fabrication is a multiple-step sequence of photolithographic and chemical processing steps during which the integrated circuits are gradually created on semiconductor material, typically a silicon wafer. Individual integrated circuits are generally known as a “chip” or “die”, and a single wafer will contain many dies.
- Wafer sort is a process whereby each individual die on the wafer is electrically tested in order to identify the operable semiconductors for assembly. Wafers are then cut into individual dies.
- Packaging, also called assembly, is the processing of bare semiconductors into finished semiconductors. During this process, each individual die is assembled into a package that typically encapsulates the die for protection and creates the electrical connections used to connect the package to a printed circuit board, module or other part of the electronic device.
- Final testing is conducted to ensure that the packaged semiconductor meets performance specifications. Final testing involves the use of testing equipment and software programmes to electrically test a number of attributes of assembled semiconductors, including functionality, speed, predicted endurance, power consumption and electrical characteristics.

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Production Facilities and Capacities

We currently operate a production facilities of a gross floor area of 2,150 sq.m located in Dongguan, the PRC, which is considered to be one of the major hubs of the electronic manufacturing and assembly industry. As at the Latest Practicable Date, our production facilities mainly employed discrete packaging technologies of different generations to manufacture packaged discrete semiconductors.

The table below sets out information on the production capacity, production volume and utilisation rate of the principal types of our self-manufactured products for the periods indicated:

	For the year ended 31 December						For the three months ended 31 March					
	2013			2014			2014			2015		
	Maximum production capacity ⁽¹⁾	Actual production volume unit	Average utilisation rate ⁽²⁾	Maximum production capacity ⁽¹⁾	Actual production volume unit	Average utilisation rate ⁽²⁾	Maximum production capacity ⁽¹⁾	Actual production volume unit	Average utilisation rate ⁽²⁾	Maximum production capacity ⁽¹⁾	Actual production volume unit	Average utilisation rate ⁽²⁾
(’000)	(’000)	(%)	(’000)	(’000)	(%)	(’000)	(’000)	(%)	(’000)	(’000)	(%)	
Die Assembling												
SOD-123FLJ												
SOD-123HE	117,700	85,090	72.3	612,300	377,474	61.7	83,900	56,400	67.2	133,400	109,459	82.1
SOD-323HE	-	-	-	19,900	160	0.8	-	-	-	6,950	75	1.1
LBF	6,420	2,496	38.9	19,620	964	4.9	4,320	60	1.4	4,170	710	17.0
Die Bonding												
SOD-323	-	-	-	468,300	336,203	71.8	47,792	20,262	42.4	133,109	125,467	94.3
SOT-23	-	-	-	82,360	56,703	68.9	-	-	-	63,800	50,494	79.1
SOT-26	-	-	-	32,050	1,822	5.7	-	-	-	5,570	4,404	79.1
DFN1006	64,200	160	0.3	248,400	119,284	48.0	43,200	2,919	6.8	75,100	58,739	78.2
DFN1608	-	-	-	59,700	302	0.5	-	-	-	20,850	1,932	9.3

Notes:

- (1) Maximum production capacity is calculated based on the period commencing on the day of first production of the relevant product and ending on the relevant year/period, adjusted for workers’ shift change and holidays. It is assumed that our production facilities operate 22 hours per working day under usual operational efficiency.
- (2) The average utilisation rate is determined based on the actual production volume of the respective year/period divided by the maximum production capacity of the year/period, which is calculated based on the assumptions as disclosed in note (1) above.

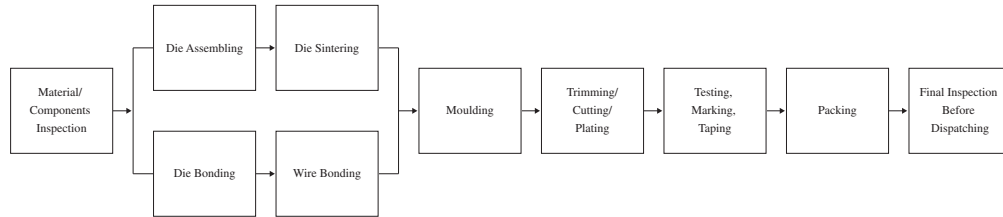
It generally takes us approximately one to two weeks to produce our existing products. Moreover, we can assemble and produce semiconductor devices with different dimensions with slight adjustments to our equipment. These adjustments can be completed in-house by our production team and/or with assistance from our equipment suppliers within a reasonable short period of time and at minimum costs. During the Track Record Period and up to the Latest Practicable Date, there has been no material breakdown of our production facilities.

BUSINESS

In line with our strategy to continue to introduce technologically advanced products, we plan to selectively expand the production capacity for certain types of our existing products and establish product lines for certain types of new products. Specifically, as we believe that there will continue to be a growing demand for packages with increased input/output density, smaller size and better heat dissipation characteristics, we plan to focus on adding equipment and machineries for manufacturing (i) certain SOT series packages including SOT26, SOT563 and SOT723, which, according to Prismark, represent smaller packages and more cost competitive as compared to SOD series packages; and (ii) certain DFN series packages including DFN0603 and DFN1006, which, according to Prismark, represent the newest discrete semiconductor packaging technology and are becoming one of the lowest cost and most practical packages for discrete packaging. Please refer to the sub-section headed “*Future Plans and Use of Proceeds–Implementation Plan*” of this prospectus for details of the implementation plan in relation to expansion of our existing production lines and establishment of new production lines.

Production Processes

Our production mainly employs two major processing technologies, die assembling and die bonding to interconnect a die to a leadframe package. Below is a brief illustration of our two major production processes:



Die Assembling Process

Step 1 – Material/Components Incoming Inspection

The raw materials and components used in the die assembling process mainly include dies, leadframes, and solder paste, which are tested for their quality after purchase. If any defects are detected, the raw materials and components will be returned to suppliers.

Step 2 – Die Assembling

Solder paste is dispensed in controlled amounts onto one leadframe, while an image recognition system identifies individual die to be removed from the wafer backing/mounting tape, and a needle assists in separating each individual die and positions such die in the proper orientation and alignment on the leadframe. Solder paste is then dispensed onto another leadframe, which is then flipped over and placed faced down on the die. The interconnections between the die and leadframes are made through conductive solder paste bumps that are placed in between the die and the leadframes.

BUSINESS

Step 3 – Die Sintering

At the second stage, the assembled die will be moved to an oven where the solder paste in between the die and leadframes is melted thus keeping the die in place. The molten solder paste will then solidify, which keeps the die attached to the leadframes.

Step 4 – Moulding

Each assembled die is then encapsulated to protect it from mechanical and chemical damage, generally in a plastic casing moulded from a moulding compound, with only the leads protruding from the finished casing.

Step 5 – Trimming/Cutting/Plating

Encapsulates undergo trimming to remove excess mould compound that may be accumulated on the leadframes from moulding, and to separate the packaged semiconductors from leadframes. The trimmed encapsulates will then undergo a plating procedure where the encapsulates will be deposited into the solder plating tank to make the leads protruding from the finished casing coated with solder. We generally outsource the plating procedure to a third-party subcontractor. Please refer to the sub-section headed “– *Manufacturing and Facilities – Subcontracting*” in this section for details.

Step 6 – Testing, Marking and Taping

Functional testing is conducted to ensure that the packaged semiconductors meet performance specifications. Final testing involves using testing equipment and software programs to electrically test a number of attributes of packaged semiconductors.

Marking is used to place corporate and product identification on each packaged semiconductor. Laser method is used to mark packages.

Taping involves transferring packaged semiconductors from a tray or tube into a tape-like carrier for shipment to customers.

Step 7 – Packing

The completed products will then be labelled and packed.

Step 8 – Final Inspection Before Dispatching

Final visual inspection will be conducted before our products are shipped to the customers.

BUSINESS

Die Bonding Process

Step 1 – Material/Components Incoming Inspection

The raw materials and components used in the die bonding process mainly include dies, leadframes, and gold wires/copper wires, which are tested for their quality after purchase. If any defects are detected, the raw materials and components will be returned to suppliers.

Step 2 – Die Bonding

Die attach adhesive is dispensed in controlled amounts on the leadframe to attach the die mounted face up on the leadframe.

Step 3 – Wire Bonding

Leads on the leadframe are connected through fine gold wires to the electrodes on the die.

Step 4 – Moulding

Each bonded die is then encapsulated to protect it from mechanical and chemical damage, which is generally achieved by dispensing a liquid encapsulate material, usually epoxy-based, over the die and the wires.

Step 5 – Cutting

Encapsulates are cut into individual finished semiconductors. The cutting method may vary depending on the type of encapsulate used.

Step 6 – Testing, Marking and Taping

Functional testing is conducted to ensure that the packaged semiconductors meet performance specifications. Final testing involves using testing equipment and software programs to electrically test a number of attributes of packaged discrete semiconductors.

Marking is used to place corporate and product identification on each packaged device. Laser method is used to mark packages.

Taping involves transferring packaged semiconductors from a tray or tube into a tape-like carrier for shipment to customers.

Step 7 – Packing

The completed products will then be labelled and packed.

BUSINESS

Step 8 – Final Inspection Before Dispatching

Final visual inspection will be conducted before our products are shipped to the customers.

Subcontracting

We have been outsourcing the plating procedure to an Independent Third Party subcontractor in close proximity to our production facilities since the commencement of operation of our production facilities. We selected our subcontractor after taking into consideration of factors such as location, reliability, production capacity, product quality and price. In addition, we have also identified alternative subcontractors which will be able to provide plating services on similar terms should such need arise.

We generally are not required to solicit consent from our customers to engage subcontractors as there were no stated restrictions regarding subcontracting in the relevant purchase orders. However, if customers require us not to engage in any subcontracting in producing their products without their prior consent, we will comply with such requirements and seek consent from the customers before subcontracting. For each of the two years ended 31 December 2013 and 2014, and the three months ended 31 March 2015, the subcontracting fees paid to our independent subcontractor amounted to approximately HK\$0.2 million, HK\$2.3 million and HK\$0.8 million, respectively, representing approximately 0.5%, 2.0% and 2.4%, respectively, of the total cost of sales during the same periods.

We did not enter into any long-term subcontracting agreement during the Track Record Period, and we engaged the subcontractor on the basis of individual purchase orders. We provide written request for plating service to the subcontractor and the subcontractor is responsible for procuring the requisite raw materials.

We usually perform quality control tests on the plating services provided by the subcontractor. Moreover, since 2013, we have entered into a quality assurance agreement with our subcontractor in substantially the same form as the agreement we enter into with our other raw material suppliers. The term of the agreement is one year and usually renewable automatically for another one year upon the expiration. Please refer to the sub-section headed “– *Quality Control – Incoming Quality Control*” in this section for details of our incoming quality control procedures and salient terms of the quality assurance agreement.

During the Track Record Period, we did not experience any difficulties in procuring services of such subcontractor that had a material adverse impact on our operations. We do not anticipate any difficulties in procuring the services of such subcontractor in the foreseeable future.

BUSINESS

QUALITY CONTROL

We emphasise quality and reliability in the manufacture of our products. We have established quality assurance standards to meet our customers' requirements. As at 31 March 2015, our quality control department was staffed with 38 quality control personnel to implement our quality control system, five of which are approved internal auditors of ISO 14001 series and OHSAS 18001 series. Our quality control personnel have, on average, approximately two years of industry experience. Our quality control team is responsible for ensuring that raw materials, semi-finished and finished products used by us or produced by us pass through our quality control processes and meet our standards. We monitor our manufacturing processes, and conduct performance and reliability testing in an attempt to ensure that our products have a low defect rate and meet the expectations of our customers. In addition, we communicate regularly with our customers to obtain feedback on the quality standards of our products. In recognition of our quality assurance systems, our production facilities were certified in relation to our quality management system (ISO 9001:2008) in January 2014, hazardous substance process management system requirements (IECQ QC080000:2012) in November 2014, environmental management system (ISO 14001:2004) in June 2015 and occupational health and safety management system (OHSAS18001:2007) in August 2015.

Incoming Quality Control

To ensure our product quality, our raw material procurement policy is to select only those suppliers on our approved list who have passed our quality control tests and have a satisfactory record of quality and on-time delivery. We require our suppliers to provide quality check reports before delivery of the raw materials and components to us. In addition, we conduct random sampling check on raw materials and components to ensure that they meet our quality requirements. Any raw materials or components that do not meet our quality standards and requirements are returned to the supplier for replacement or refund. All key semi-finished components which are self-manufactured or by our subcontractor are inspected before being used in our production process.

To ensure the quality of raw materials procured, we generally require our suppliers who provide raw materials for our manufacturing operation to enter into a quality assurance agreement with a term of one year which is usually renewable automatically for another one year upon the expiration of its term. Pursuant to the quality assurance agreement, our suppliers agree to ensure the raw materials are delivered to us in conformity with the specifications and within the time frame set out in the agreement. We conduct sampling tests on raw materials that we purchase. In the event that the quality of the sampling does not meet our specifications set out in the agreement, we are entitled to return all raw materials for repair, selectively accept raw materials that pass quality check, or accept all raw materials on a discounted price provided that the suppliers will be liable for any damages caused by utilising such products in our manufacturing.

BUSINESS

In the event that a complaint, return or claim for defective raw materials comes to light after we have used the raw materials to manufacture our self-manufactured products, our suppliers have agreed to indemnify us for any losses incurred.

In-Process Quality Control

Every stage of our key production process is monitored by our quality control team to ensure that the production process conforms to specific quality control requirements. Visual inspection and performance testing are conducted to assess the performance of semi-finished products to ensure that our quality standards are met. We have also established step-by-step contingency procedures for our staff should certain events require product recall or retesting.

Outgoing Quality Control

In addition, we also ensure all our products are in compliance with the international safety standard regarding Restriction of the Use of Certain Hazardous Substances Directive 2011/65/EC (RoHS) which is adopted by the European Union. We ensure that the six specified hazardous substances in the manufacture of various types of electronic and electrical equipment are within the limits specified in RoHS for our products. For our products exported to European market, we also ensure they are halogen and antimony free. Our products are also certified by an independent internationally reputable certification firm annually to meet the safety requirements by our customers.

We check each shipment of finished products prior to its delivery to our customers. Products which do not meet our quality standards will be re-worked and are subject again to the same inspection and performance testing. The final approved products are then delivered to our customers.

SALES AND MARKETING

Customers

Notwithstanding a short history of less than three years, we have had business dealings with over 90 customers located mainly in the PRC, Hong Kong, Korea, Thailand, Vietnam, Taiwan and Japan as at the Latest Practicable Date. Our customers usually include (i) trader customers which generally on-sell our products to others and/or (ii) manufacturers which use our products as components, and either manufacture end-products on an OEM/ODM basis for others or in their own brands. We treat our trader customers in the same way as we treat our manufacturer customers. As at the Latest Practicable Date, we do not control or enter into any distribution or franchise agreement with any of our trader customers, nor do we monitor their inventory level or sales level. They do not hold any inventory under our name either. None of our Directors or Substantial Shareholders has any interest, direct or indirect, in any of our trader customers.

BUSINESS

We have cultivated stable and cooperative relationships with a number of our major customers by providing them with (i) self-manufactured products and after-sales services, including product warranty, technical supports and adjusting our designed products to meet their needs; and (ii) semiconductors sourced from other industrial suppliers, usually integrated/bundled with our self-manufactured products to satisfy our customers' solution kits requirements.

Our top five customers collectively accounted for approximately 68.5%, 42.1% and 36.2%, respectively, of our total turnover for each of the two years ended 31 December 2013 and 2014 and the three months ended 31 March 2015. Our largest customer for each of the same periods accounted for approximately 23.3%, 10.5% and 12.4%, respectively, of our total turnover. None of our Directors, their respective close associates, or any Shareholder who, to the knowledge of our Directors, owns more than 5% of our issued capital, has any interest in any of our five largest customers for the two years ended 31 December 2013 and 2014, and the three months ended 31 March 2015.

The following table sets out details of our five largest customers during the Track Record Period:

<u>Customer</u>	<u>For the year ended 31 December 2013</u>		<u>Years of relationship</u>	<u>% of total turnover</u>
	<u>Sales amount</u> <i>(HK\$'000)</i>	<u>Principal business nature</u>		
Customer A	10,647	Trading of diodes and transistors	Since 2013	23.3
Customer B	8,652	Trading of diodes and transistors	Since 2013	18.9
Customer C	4,536	Trading of diodes and transistors	Since 2013	9.9
Customer D	4,518	Trading of diodes and transistors	Since 2013	9.9
Customer E	2,946	Trading of diodes and transistors	Since 2012	6.5

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For the year ended 31 December 2014				
<u>Customer</u>	<u>Sales amount</u> <i>(HK\$'000)</i>	<u>Principal business nature</u>	<u>Years of relationship</u>	<u>% of total turnover</u>
Customer A	16,692	Trading of diodes and transistors	Since 2013	10.5
Customer E	15,308	Trading of diodes and transistors	Since 2012	9.6
Customer B	15,254	Trading of diodes and transistors	Since 2013	9.6
Customer F	11,543	Trading of diodes and transistors	Since 2013	7.2
Customer D	8,241	Trading of diodes and transistors	Since 2013	5.2

For the three months ended 31 March 2015				
<u>Customer</u>	<u>Sales amount</u> <i>(HK\$'000)</i>	<u>Principal business nature</u>	<u>Years of relationship</u>	<u>% of total turnover</u>
Customer G	6,056	Manufacturing of LED, mobile phones and accessories	Since 2014	12.4
Customer E	3,364	Trading of diodes and transistors	Since 2012	6.9
Customer A	3,024	Trading of diodes and transistors	Since 2013	6.2
Customer B	2,778	Trading of diodes and transistors	Since 2013	5.7
Customer H	2,514	Trading of diodes and transistors	Since 2013	5.0

BUSINESS

Overlapping of Customers and Suppliers

Some of our suppliers may purchase goods from us if we have in stock goods that they are in need of. Sales to such customers who are also our suppliers could include our self-manufactured products and products sourced from third-party suppliers. Our Directors confirmed that negotiations of the terms of our sales to and purchases from these customers were conducted on individual basis and the sales and purchases were neither inter-connected nor inter-conditional with each other. The terms of transactions with such customers are similar to those transactions with our other customers and suppliers. Our sales invoices to such customers are standardised invoices consistent with other major customers of our Group. Our Directors confirmed that, during the Track Record Period, the products we purchased from these customers were not subsequently sold to these same customers, nor vice versa. None of our Directors, their respective close associates, or any Shareholder who, to the knowledge of our Directors, owns more than 5% of our issued capital, has any interest in any of these customers for the two years ended 31 December 2013 and 2014, and the three months ended 31 March 2015.

For each of the two years ended 31 December 2013 and 2014, and the three months ended 31 March 2015, five of our customers were also our suppliers. Sales to such customers who were also suppliers attributed to approximately 36.2%, 15.5% and 13.7%, respectively, of our total turnover for each of the two years ended 31 December 2013 and 2014, and the three months ended 31 March 2015. The amount of purchases from such customers who were also suppliers attributed to approximately 29.8%, 42.3% and 37.6%, respectively, of our total purchases for each of the two years ended 31 December 2013 and 2014 and the three months ended 31 March 2015. Our gross profit derived from the sales of products to such customers were approximately HK\$5.1 million, HK\$9.5 million and HK\$2.0 million, respectively, for each of the two years ended 31 December 2013 and 2014 and the three months ended 31 March 2015, and our gross profit margin for the sales of products to such customers were approximately 31.0%, 38.3% and 30.1%, respectively, for the same periods. Our gross profit margin for the sales to such customers varied during the Track Record Period, primarily due to the different product mix sold to such customers.

The amount payable to us for the products purchased from us by our non-PRC customers who are also our suppliers is generally settled on a net basis against the amount payable by us to such customers for the raw materials or semiconductors we procure from them.

The amount payable by us for the raw materials or semiconductors purchased from our non-PRC suppliers who are also our customers is also generally settled on a net basis against the amount payable to us by such suppliers for our products sold to them.

For PRC customers or suppliers, the amount payable to us and the amount payable by us are settled in gross basis.

BUSINESS

Relationship with Particular Customers

Customer B, one of our top five customers was also one of our top five suppliers during the Track Record Period. Sales to Customer B attributed to approximately 18.9%, 9.6% and 5.7%, respectively, of our total turnover for each of the two years ended 31 December 2013 and 2014 and the three months ended 31 March 2015. Purchase from Customer B attributed to approximately 17.4%, 12.3% and 9.1%, respectively, of our total purchases for each of the two years ended 31 December 2013 and 2014 and the three months ended 31 March 2015. Products sold to Customer B mainly include DFN1006 and SOD123FL, and the price of which were mainly determined based on the costs plus the expected profit margin determined by our management team. Products purchased from Customer B mainly include glass diodes. Our decision to purchase from Customer B depends on the prevailing market prices of such products from similar products supplied by other suppliers.

Supplier III, one of our top five suppliers was also one of our top ten customers during the Track Record Period. Sales to Supplier III attributed to approximately 5.7%, 3.5% and 3.0%, respectively, of our total turnover for each of the two years ended 31 December 2013 and 2014 and the three months ended 31 March 2015. Purchase from Supplier III attributed to approximately 12.0%, 27.2% and 11.2%, respectively, of our total purchases for each of the two years ended 31 December 2013 and 2014, and the three months ended 31 March 2015. Products sold to Supplier III mainly include DFN1006 and SOD123FL, the price of which were mainly determined based on costs plus the expected profit margin determined by our management team. Products purchased from Supplier III mainly include glass diodes and TO92 products. Our decision to purchase from Supplier III depends upon the prevailing market prices of such products from other suppliers. In addition, the parent company of Supplier III also holds 50% of the entire issued share capital of SEL with whom we have entered into the Transfer Agreements to acquire the ST Mark. For further details relating to the history of the ST Mark and our relationship with Supplier III and its parent company, please refer to the sub-section headed “*History, Reorganisation and Group Structure – The Group’s Business Development*” of this prospectus.

Sales Markets

Our products are sold in the PRC, Korea, Hong Kong and certain other markets in Asia and Europe. Some of the countries to which we export our products may impose anti-dumping duties on products exported from another country if their governments decide such exported products are being sold (i) at less than the producers’ sale prices in the home market; or (ii) at prices that are lower than their production costs. Some of the countries to which we export our products may impose countervailing duties on products imported from another country for the purpose of offsetting the negative effects of subsidies provided by the governments of the exporting countries on the products that are found to be hurting domestic producers.

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The following table sets out a breakdown of our turnover by geographic locations of our customers during the Track Record Period:

	Year ended 31 December				Three months ended 31 March			
	2013		2014		2014		2015	
	(HK\$'000)	% of total turnover	(HK\$'000)	% of total turnover	(HK\$'000)	% of total turnover	(HK\$'000)	% of total turnover
	(unaudited)							
Geographic locations								
PRC	19,191	42.0	69,527	43.6	11,981	51.4	20,014	40.8
Korea	12,933	28.3	58,233	36.5	7,116	30.6	19,071	38.9
Hong Kong	7,193	15.8	14,876	9.3	1,610	6.9	2,497	5.1
Other Asian markets ⁽¹⁾	5,443	11.9	5,680	3.6	262	1.1	5,357	10.9
Europe ⁽²⁾ and others	925	2.0	11,007	7.0	2,340	10.0	2,084	4.3
Total	45,685	100.0	159,323	100.0	23,309	100.0	49,023	100.0

Notes:

(1) Other Asian markets are Thailand, Vietnam, Taiwan and Japan.

(2) The relevant European country is Germany.

Our sales and marketing operations are mainly undertaken in Hong Kong and Dongguan, the PRC. Our CEO, Mr. Chow Hin Kok, oversees our sales and marketing operations. Our sales and marketing team is also capable of recommending suitable semiconductors for specific applications of our customers' end design and liaising with them on the specifications for new product development.

Sales and Distribution Channels

Direct Sales

We primarily sell our products to customers through direct sales. Our sales and marketing efforts are customer-driven because we believe that knowledge of our customers' requirements and specifications is critical to our ability to offer products to meet their changing needs. We maintain a database of our existing customers with information regarding their previous purchases and credit history. In addition, we also collect information about companies which we believe may become our customers in the future. We believe this database assists us in developing the most appropriate marketing approach. We contact our existing and potential customers periodically. We meet with them with a view to understanding the technical requirements and sales objectives of our customers, as well as to discuss how our products and capabilities can be effectively utilised in their product lines.

BUSINESS

Third-party Agent

We consider engaging third-party agent with local knowledge is a more efficient and cost-effective way of quickly broadening our sales networks and reaching out to targeted international customers, as compared to the fixed cost of employing and growing an international sales force to achieve the same result, and maintaining satellite offices in location where we have no significant presence. As at the Latest Practicable Date, we engaged a third-party agent in Korea, which is an Independent Third Party. Our third-party agent has networking with major consumer electronic brands in Korea such as Samsung and LG and is engaged in the business of trading, wholesale and retail of electronic components. It started doing business with us initially as a trader customer when we started to explore the Korean market in 2013. This third-party agent in its capacity as a trading company, placed orders directly with us and was our top customer in 2013 and 2014 and one of the top five customers for the three months ended 31 March 2015 accounting for approximately 23.3%, 10.5% and 6.2% respectively of our total turnover for each of the two years ended 31 December 2013 and 2014 and the three months ended 31 March 2015. Sales to such third-party agent as a trader customer were made on an arm's length basis and the terms of transactions with such third-party agent are similar to those transactions with our other customers. Sales to such third-party agent include both our self-manufactured products and products sourced from third-party suppliers, the price of which were mainly determined based on costs plus the expected profit margin determined by our management team. We consider our gross profit margin for the sales to such third-party agent comparable to gross profit margin for the sales to our other customers. Our turnover attributable to the sales to such third-party agent as a trader customer decreased as a percentage of our total turnover, primarily due to our significantly increased sales to other customers during the Track Record Period.

Such third-party agent is not a distributor of our Group. We do not have control over or enter into any distribution agreement with such third-party agent, nor do we exercise any influence on its inventory level or sales activities. Specifically it does not have to comply with geographical restriction, sales and avoidance of competition policies in re-selling our products. Such third-party agent is not required to provide us with sales and inventory reports or estimates. Moreover, our Directors consider that it is unlikely to have any channel stuffing issue. Our sales to such third-party agent as a trader customer are completed when all the risks and rewards of the products are transferred to such third-party agent upon delivery of the products. In addition, such third-party agent is not entitled to return products (including unsold or obsolete goods) unless they are defective and within warranty period. We grant such third-party agent a credit period of 75 days, which is comparable to the credit periods we grant to our other customers. Our Directors confirm that during the Track Record Period, there was no major issue arising from the collection of trade receivables from such third-party agent and 100% of our trade receivables due from such third-party agent as at 31 March 2015 have been fully settled as at the Latest Practicable Date.

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In addition to its role as one of our trader customers, as such third-party agent has knowledge of customers' needs but is not necessarily able to provide constant technical support and customised engineering solutions for the products sold, such third-party agent also refers to us customers who require these services. During the Track Record Period, such third-party agent has referred to us mainly Korean manufacturers for well-known consumer electronic brands including Samsung and LG, and a few customers located in the PRC and Vietnam which are overseas subsidiaries of these manufacturers. These manufacturers for well-known consumer brands generally require constant technical support and customised engineering solutions services to cater for their specific product design needs. Given its knowledge of the local semiconductor market and networking with major consumer electronic brands in Korea, our third-party agent performs a useful role in identifying business and market opportunities and promoting our products in the Korean market thereby enabling us to deploy our resources to concentrate on product development, branding and cultivating our relationships with our existing and potential customers elsewhere. As a result of the synergy effect achieved by the sales and marketing efforts of our third-party agent and our constant technical support and customised engineering solution services, our turnover generated from customers referred by such third-party agent increased during the Track Record Period. Moreover, such third-party agent also functions as our local liaison in Korea and provides coordination services to the Korean customers referred by it. Having considered and compared the potential expenses and other time and resources commitment of maintaining a sales representative office in Korea to perform similar functions as our third-party agent and the potential costs for hiring sales representatives with similar experience and networking as the third-party agent with the commission paid to such third-party agent, our Directors consider the engagement of such third-party agent useful in helping us to penetrate the Korean market and is more cost-effective than employing direct sales force in Korea.

The customers referred by such third-party agent place orders with us directly. Such sales are subject to the same sales arrangement, return policy and credit and payment terms as our direct sale customers. Sales to the customers referred by such third-party agent could include our self-manufactured products and products sourced from third-party suppliers, the price of which are mainly determined based on costs plus the expected profit margin determined by our management team. We generally enter into an agency commission agreement with our third-party agent in respect of each customer such third-party agent refers to us with specific products which such customer purchases from us. In case of well-known consumer electronic brand customers referred by such third-party agent, we may also enter into one agency commission agreement with our third-party agent in respect of a group of entities, which are OEM/ODM manufacturers for such well-known consumer electronic brands. The salient terms of a common agency commission agreement with our third-party agent are as follows:

- **Contract period:** The agreement has a term of two years, which is generally automatically renewable for another one year upon expiration of its terms.

BUSINESS

- **Rights and obligations:** Our third-party agent is granted the rights to procure business from the customers and such entities (if any) named in the agreement, and we pay our third-party agent monthly commission based on the actual sales to the named customers and such entities (if any).
- **Delivery and invoicing:** We invoice and deliver our products directly to the customers.
- **Exclusivity:** During the terms of the agency agreement, we shall not appoint other agents to approach the customer named in the agreement or to conduct any actions that may affect business of the third-party agent.

The commission we pay to our third-party agent generally ranges from approximately 2% to 18% of our turnover generated from the actual sales to the named customers in the respective agency commission agreements. As our products are priced on a cost-plus basis, we generally give our third-party agent a higher percentage of commission as an incentive if the sales price procured by such third-party agent is higher than our expected sales price for the products sold. During the Track Record Period, the unit sales prices for the products sold to the customers referred by such third-party agent after netting the commission paid to such third-party agent are generally comparable with, if not higher than the unit sales prices we charge our other customers for the same products. For each of the two years ended 31 December 2013 and 2014, and the three months ended 31 March 2015, the total amount of commission paid to our third-party agent amounted to approximately HK\$0.1 million, HK\$4.0 million and HK\$2.0 million, respectively. Going forward, we will consider different factors such as standing and level of influence in the local semiconductor product industry, the retail and brand management experience, financial resources and creditworthiness when selecting potential agents.

The following table sets out a breakdown of our sales by sales and distribution channels during the Track Record Period:

	Year ended 31 December				Three months ended 31 March			
	2013		2014		2014		2015	
	(HK\$'000)	% of total turnover	(HK\$'000)	% of total turnover	(HK\$'000)	% of total turnover	(HK\$'000)	% of total turnover
Sales and distribution channels								
Direct sales	43,399	95.0	111,228	69.8	19,981	85.7	27,915	56.9
Sales referred by third-party agent	2,286	5.0	48,095	30.2	3,328	14.3	21,108	43.1
Total	45,685	100.0	159,323	100.0	23,309	100.0	49,023	100.0

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The turnover attributable to our direct sales efforts accounted for approximately 95.0%, 69.8% and 56.9%, respectively, of our total turnover for each of the two years ended 31 December 2013 and 2014, and the three months ended 31 March 2015, while the turnover generated from customers referred by our third-party agent accounted for approximately 5.0%, 30.2% and 43.1%, respectively, of our total turnover for the same periods.

Sales Arrangement

We generally do not enter into framework sales agreements with our customers. Both our direct sale customers and customers secured through our third-party agent place purchase orders with us directly to effect a specific transaction and such purchase orders generally stipulate the price, quantity, payment terms and delivery date of the relevant products. Unless the conditions are specified in the quality assurance agreements, we do not warrant our customers that they will always be able to alter or cancel their purchase orders, but we may consider granting such permissions on a case by case basis, with or without compensation, taking into account our ability to handle and resolve the returned inventory and the cost for such resolution.

Sales and Marketing Strategies

With respect to each of our existing key customers, we strive to increase both the range of products provided and the volume of orders they placed with us. In order to maintain good relationships with our customers, our sales and marketing team contacts our key customers periodically so that we are able to be kept informed of the latest developments in respect of our customers' business as well as their on-going requirements, while at the same time keeps our customers informed of our latest product offerings and development activities.

With respect to potential customers, we reach out to certain targeted potential customers who are engaged in selected industries such as consumer electronics. In addition to maintaining our existing customer base and reaching out to targeted potential customers, we also intend to explore potential opportunities in other industries such as automotive, medical and healthcare equipment and devices, where we currently do not have a presence. We participate in industrial exhibitions and place advertisements in specialised trade magazines, electronic trading platforms and our corporate website to develop our relationships with these potential customers.

Branding Strategy

We believe in the importance of adopting effective marketing strategies as a means of increasing market awareness and recognition of our Group as a semiconductor manufacturer in the market so as to gradually increase our market share and to secure sustainable growth in the long-run. To increase publicity and market awareness of our name "Top Dynamic", we regularly participate in industrial exhibitions and place advertisements in specialised trade magazines, electronic trading platforms and our corporate website. We also label the boxes of our products with the mark "ST" alongside "Top Dynamic" with a view to increasing customer awareness. As our name "Top Dynamic" becomes more established in the future, we plan to increase marketing our products under our name "Top Dynamic" on a standalone basis.

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Customer Service

We strive to provide quality customer service in order to attract customers and maintain their ongoing loyalty. Our culture emphasises on responsiveness to customer needs with a focus on flexibility, speed and accuracy throughout our manufacturing and delivery processes. We believe that our customer-oriented approach is especially evident in the solution kits and engineering solutions services we provide to our customers. Please refer to the sub-section headed “– *Products and Services Provided*” in this section for details. We strive to be responsive to our customers’ requirements for rapid overall turn-around time and production time-to-market.

PRICING POLICY

Our customers generally do not place purchase orders far in advance for a particular type of product. However, we usually request our customers to provide us with rolling forecasts on the demand of our products in order to plan ahead for potential production schedule.

We generally adopt the cost-plus pricing policy and determine the prices of both our self-manufactured products and trading products based on our actual cost plus the expected profit margin determined by our management team. Prices for our products vary from customer to customer. Factors taken into account for the pricing would usually include, among others, the geographical location of the customers, the relationship with the customers and the business that the customers are engaged in and the order size.

CREDIT POLICY

For sales of both our self-manufactured products and trading products, we determine the credit period for our customers based on business relationship, customers’ financial condition and credit records and current market conditions. For new or less reputable customers, we usually require payment on delivery and no credit period will be granted and in certain cases, we may require a deposit by the customers when they place order with us. For more established customers, we normally grant them a credit period. During the Track Record Period, depending on the customers’ financial background and past payment history, grant credit periods ranging from 0 to 90 days. Most of our sales during the Track Record Period were made and settled by way of telegraphic transfer or cheques.

Our sales team is responsible for ensuring that the amount of credit granted to our customers for each sales order does not exceed the permitted amount. Once a customer has reached its permitted credit amount, our sales team will hold off delivery of all existing orders to that customer and suspend accepting new orders from that customer pending the final decision of our CEO. We periodically review the credit terms and our customer’s payment track record and, if necessary, we will revise the credit terms granted to our customers. We will also monitor any outstanding overdue debts and take measures to collect any outstanding debts.

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PRODUCT RETURN POLICY

Some of our major customers require us to enter into a quality assurance agreement which sets out the specific quality control requirements for us to abide by as a supplier for such customer and we agree to provide warranties as to the quality of our products and bear costs for repair, replacement or return of defective products on the negotiated terms. The term of the agreement is one year and usually renewable automatically for another one year upon the expiration.

We had not experienced any material litigation, claims, returns on sales, recalls, reworks, or repairs from our customers during the Track Record Period and up to the Latest Practicable Date. During the Track Record Period, returns on sales of both self-manufactured products and products sourced from third-party suppliers were approximately nil, HK\$0.1 million and HK\$0.2 million, or nil, 0.1% and 0.4%, respectively, of our total turnover for each of the two years ended 31 December 2013 and 2014 and the three months ended 31 March 2015. Our Directors consider that the amount of returned products was insignificant and no provision on products return has to be made during the Track Record Period.

Self-Manufactured Products

We test and inspect our products extensively prior to delivery to customers with a view to minimise after-sale quality issues. The warranty terms and period for our self-manufactured products are usually negotiated between our Company and our customers and therefore such terms and period of warranty may differ from one customer to another. We generally provide one year warranty for our self-manufactured products. Our product warranty typically requires us to manufacture products at such standard agreed with our customers and in conformity with the customer specifications. If our products break down and defects are found in our product within the warranty period, our customers may return such products to us and we shall repair or replace such products free of charge. In the event that the products break down and defects are found after the expiration of the warranty period, upon request of the customers, we will repair the defective products at the costs of our customers.

Products Sourced from Third-Party Suppliers

We provide warranties to our customers for products sourced from third-party suppliers, generally based on warranties given to us by the third-party suppliers. We generally accept returns for defective products by our customers and subsequently return defective products under warranty to the relevant third-party suppliers for repairs or exchanges. The relevant third-party suppliers normally bear the related costs.

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PROCUREMENT AND SUPPLIERS

Raw Materials and Suppliers

We source raw materials for our manufacturing business and semiconductors for our trading business from various suppliers including manufacturers and agents of branded manufacturers. Our principal types of raw materials and components for our manufacturing business include silicon dies, the functional unit of the semiconductor to be packaged, which are supplied in the form of silicon wafers and interconnect materials such as leadframes, gold wire and moulding compound.

The following table sets out a breakdown of (i) raw materials procured for our manufacturing business; and (ii) products sourced from third-party suppliers for our trading business during the Track Record Period:

	Year ended 31 December				Three months ended 31 March			
	2013		2014		2014		2015	
	<i>% of total material</i>		<i>% of total material</i>		<i>% of total material</i>		<i>% of total material</i>	
	<i>(HK\$'000)</i>	<i>costs</i>	<i>(HK\$'000)</i>	<i>costs</i>	<i>(HK\$'000)</i>	<i>costs</i>	<i>(HK\$'000)</i>	<i>costs</i>
	(unaudited)							
Manufacturing business								
- Wafer	3,258	9.3	19,683	20.4	1,590	10.7	7,985	30.3
- Leadframe	911	2.6	7,166	7.4	858	5.8	2,805	10.7
- Gold wire	-	-	1,013	1.0	51	0.4	493	1.9
- Others	89	0.3	871	0.9	79	0.5	379	1.4
Subtotal	4,258	12.2	28,733	29.7	2,578	17.4	11,662	44.3
Trading business	30,790	87.8	67,840	70.3	12,254	82.6	14,690	55.7
Total	35,048	100.0	96,573	100.0	14,832	100.0	26,352	100.0

We believe that we have developed stable relationships with our key suppliers. For each of the two years ended 31 December 2013 and 2014, and the three months ended 31 March 2015, our five largest suppliers accounted for approximately 91.1%, 70.0% and 72.9%, respectively, of our total purchases, and our largest supplier for each of the reporting periods accounted for approximately 51.5%, 27.2% and 25.8%, respectively, of our total purchases. None of our Directors, their respective close associates, or any Shareholder who, to the knowledge of our Directors, owns more than 5% of our issued capital, has any interest in any of our five largest suppliers for the two years ended 31 December 2013 and 2014 and the three months ended 31 March 2015.

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The following table sets out details of our five largest suppliers during the Track Record Period:

<u>Supplier</u>	For the year ended 31 December 2013		<u>Years of relationship</u>	<u>% of total purchases</u>
	<u>Purchase amount</u> <i>(HK\$'000)</i>	<u>Principal business nature</u>		
Supplier I	19,391	Trading of electronic components	Since 2013	51.5
Supplier II	6,560	Trading of electronic components	Since 2013	17.4
Supplier III	4,540	Manufacture and trading of electronic and electrical parts and components	Since 2013	12.0
Supplier IV	2,099	Trading of electronic components	Since 2013	5.6
Supplier V	1,734	Trading and manufacture of electronic components	Since 2012	4.6

<u>Supplier</u>	For the year ended 31 December 2014		<u>Years of relationship</u>	<u>% of total purchases</u>
	<u>Purchase amount</u> <i>(HK\$'000)</i>	<u>Principal business nature</u>		
Supplier III	28,591	Manufacture and trading of electronic and electrical parts and components	Since 2013	27.2
Supplier VI	14,383	Manufacture of semiconductors	Since 2014	13.7
Supplier II	12,986	Trading of electronic components	Since 2013	12.3
Supplier V	9,981	Trading and manufacture of electronic components	Since 2012	9.5
Supplier VII	7,777	Manufacture of silicon wafers	Since 2013	7.3

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<u>Supplier</u>	For the three months ended 31 March 2015		<u>Years of relationship</u>	<u>% of total purchases</u>
	<u>Purchase amount</u> <i>(HK\$'000)</i>	<u>Principal business nature</u>		
Supplier VI	6,856	Manufacture of semiconductors	Since 2014	25.8
Supplier VIII	4,542	Manufacture of semiconductors	Since 2013	17.1
Supplier III	2,989	Manufacture and trading of electronic and electrical parts and components	Since 2013	11.2
Supplier VII	2,572	Manufacture of silicon wafers	Since 2013	9.7
Supplier II	2,439	Trading of electronic components	Since 2013	9.1

We select our suppliers based on product quality, reliability, price and compatibility. Our raw material procurement policy is to select only those suppliers on our approved list who have passed our quality control tests and have a satisfactory record of quality and on-time delivery. The quality and delivery performance of each supplier is evaluated monthly and order quantity allocations may be adjusted for subsequent periods based on the results of the evaluation.

We believe that we have established stable cooperative relationships with our key suppliers of raw materials, which enable us to obtain a reliable supply of most of the raw materials required by business operations. We retain at least two suppliers for each principal raw material. We have not encountered any material disruption of our business as a result of a shortage of raw materials and we do not expect any material difficulties in procuring raw materials for our requirements.

Supply Agreements

We purchase raw materials for our manufacturing business and semiconductors for our trading business through purchase orders. Our purchase orders are generally made pursuant to the terms of a framework agreement that sets out some general terms that will be used in each purchase order. Each purchase order sets out all of the terms and conditions of each transaction, including the pricing terms, specification of the raw materials, quantity and date of delivery, and such purchase order is legally binding once it is accepted by the suppliers. Our suppliers generally grant us credit terms ranging from 30 to 120 days and the right to replace or refund the delivered goods in case of defective products. We generally settle our payments with our suppliers by bank remittance or cheques.

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Our supply framework agreements with our suppliers generally do not contain any minimum purchase requirements. These framework agreements are legally binding and set out general terms and conditions that will apply to each of the purchase orders issued under such framework agreements. The salient terms of a common framework supply agreement are as follows:

- **Contract period:** We generally enter into framework supply agreements with a term of one year, which are generally automatically renewable for the same term.
- **Rights and obligations:** Our suppliers will sell, and we will purchase, the products stipulated in the framework supply agreements.
- **Delivery and packing:** Our suppliers are usually required to deliver to us the raw materials and semiconductors in accordance with the agreed packing standard as stipulated in the framework supply agreements.
- **Quality assurance and return policy:** We conduct sampling tests on all incoming products and, in the event that the quality of the sampling does not meet our specifications set out in the agreement, we are entitled to return all products for repair, selectively accept products that pass quality check, or accept all products on a discounted price provided that the suppliers will be liable for any damages caused by utilising such products in our manufacturing. In the event that a complaint, return or claim for defective products comes to light after we have sold the products to our customers, our suppliers agreed to indemnify us for any losses incurred.
- **Confidentiality and intellectual property rights:** Our suppliers are obliged to protect and keep confidential all of the proprietary technical information provided by us in relation to the supply of their products. Furthermore, our suppliers also warrant that they have been licenced to use all of the intellectual property rights in manufacturing the products supplied to us.
- **Dispute resolution:** Any disputes between the suppliers and us under the agreement shall firstly be resolved through negotiations, failure of which, the parties may resort to arbitration at designated tribunal, and the award would be final and binding.

To ensure our business is in compliance with the environmental laws and regulations as well as the applicable laws and regulations on the control of hazardous substances, we also enter into a hazardous substance control agreement with certain suppliers whose products may involve the use or disposal of hazardous substances. The salient terms of a common hazardous substances control agreement are as follows:

- **Contract period:** Our hazardous substance control agreement with suppliers are generally in indefinite term, which last until both parties enter into new or amended agreement in writing in the future.

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- **Rights and obligations:** Our suppliers ensure that they are in compliance with the environmental protection laws and regulations as well as the applicable industry standards in supplying to us their products. Our suppliers are also obliged to, as required by us, provide all of the documentation on hazardous substance control of the supplied products, and ensure such documentation is valid and true.
- **Breach and remedy:** If there is a breach of obligation under the agreement by the suppliers, we are entitled to damages, or may claim indemnification from the suppliers all of the loss incurred by the breach.
- **Dispute resolution:** Any disputes between the suppliers and us under the agreement shall firstly be resolved through negotiations, failure of which, the parties may resort to arbitration at designated tribunal, and the award would be final and binding.

We provide our major suppliers with demand forecasts and delivery requests for raw materials on a periodic basis. We are not under any obligation to purchase raw materials from our suppliers until we actually place a purchase order. The actual purchase price is generally determined based on prevailing market conditions and historical prices. In the past, prices of our principal raw materials have remained stable.

INVENTORY MANAGEMENT

For our manufacturing business, our inventory comprises mainly raw materials and finished products. For our self-manufactured products, we generally maintain inventory levels based primarily on our estimated production requirements and current and forecast sales orders, which usually equals inventory necessary to sustain two to three months' production. In certain cases, we stock up our inventory upon receipt of forecast or confirmed order from a customer.

For our trading business, we stock up our inventory in accordance with the requirements of our customers. We place order with the third-party suppliers for the trading products required after purchase request is received from our customers.

We carry out physical inventory counts periodically for better control and management of inventories for both our manufacturing business and trading business to ensure the accuracy and completeness of stock-in and stock-out information on record. In addition, our Group adopted the "first-in first-out" method to ensure inventories of older age for our manufacturing business will not be unnecessarily accumulated for an extended period of time. Generally, provision will be made for inventories which are considered obsolete after taking into account the aging of the inventory items, the movement and usefulness or residual value of the inventories.

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EQUIPMENT AND MAINTENANCE


The key equipment and machinery of our production lines are mainly purchased from reputable industry suppliers such as ASM Pacific (Hong Kong) Limited, Kulicke & Soffa Pte. Ltd., Ueno Seiki Co., Ltd. and Disco Hi-Tec China Co., Ltd. which are reputable industry suppliers headquartered in Japan or Singapore, as the case may be. The key equipment used in the semiconductor packaging process includes wire bonder and die bonder. Wire bonders connect the electrodes on the silicon die using extremely fine gold wire or copper wire to leads on leadframes or substrates. Typically, a wire bonder can be used for the packaging of different products. We purchase our wire bonders principally from ASM Pacific (Hong Kong) Limited and Kulicke & Soffa Pte Ltd. We purchase our die bonders principally from ASM Pacific (Hong Kong) Limited. In addition to bonders, we maintain a variety of other types of packaging equipment, such as dispensers, automated moulding machines, laser markers, trimmers, formers, and handlers. Our engineers will liaise with the equipment suppliers to ensure the relevant production facility meets the specifications that we request. Our technical team is responsible for overseeing the installation of our manufacturing lines with a view to optimise the entire production process. For each of the two years ended 31 December 2013 and 2014, and the three months ended 31 March 2015, we have incurred capital expenditure mainly for the purchases of equipment and machineries amounting to approximately HK\$22.8 million, HK\$38.3 million and HK\$0.8 million, respectively.

Based on the estimated useful lives of our equipment of 10 years, we do not anticipate any significant replacement expenditures for our equipment in the near future. We have implemented a maintenance system for our facilities and equipment, which includes regular maintenance, and repairs and regular inspections of facilities and equipment. This allows us to operate our production lines at optimal levels. We carry out routine cleaning and maintenance of our equipment to enhance its useful life. We also conduct major annual maintenance work. Our maintenance system aims to maintain operational efficiency and high-quality control standards. We did not experience any material or prolonged interruptions to our manufacturing process due to equipment or machinery failure during the Track Record Period.

SEASONALITY

The demand for our products fluctuates and generally does not fall into any specific pattern during a year. Our Directors consider that the demand for our products is affected by demand for consumer and industrial portable electronics which is not subject to seasonal factors.

INTELLECTUAL PROPERTY

As at the Latest Practicable Date, we have registered the TD Trademarks in Hong Kong and Japan. We have also applied for registration of the TD Trademarks in Malaysia, Korea, Singapore and Taiwan, which are pending for approval. The registrations of  and **TOP DYNAMIC** in the PRC are in process. On 15 June 2015, TD Electronics has entered into the Transfer Agreements to acquire the ST Mark from SEL and has applied for registration of such transfer with the PRC Trademark Office.

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Although our products do not bear any trademark logo, the packing boxes of our products are labelled with our Company name “Top Dynamic” as well as the TD Trademarks (before they were removed) and the ST Mark. We have previously applied for registration of the TD Trademarks in the PRC and our applications have been rejected on the grounds that certain part of these trademarks are similar to other trademarks which have been registered under the name of another person or entity in the same class. Our PRC Legal Advisers have advised that Dongguan Jia Jun may be claimed for trademark infringement for its historical use of the TD Trademarks in the PRC whilst the trademark applications were then pending. The likelihood of success of a future potential claim (if it is initiated at all) for trademark infringement would ordinarily depend on a number of factors and circumstances, including but not limited to the similarities between the products using the registered trademark and the alleged infringing trademark in terms of capability, function, production method, sales channel and target consumers, and the circumstances under which the trademark in dispute has been applied by the registered owner and the alleged infringing party. Therefore, it is not possible at present to quantify the amount of a future potential claim which may or may not occur. As a result of the failure to register the TD Trademarks in the PRC, we have now ceased using the TD Trademarks and substituted them with the words “TOP DYNAMIC” in respect of the packing boxes of our products for sale to customers within the PRC. We believe that such change will not affect our business in a material adverse way as some of our customers have indicated that they would continue to do business with us under our name “Top Dynamic”. As at the Latest Practicable Date, we were neither aware of any material infringement of our intellectual property rights, nor had any knowledge of claims or litigation against us in respect of the use of our trademarks pending registration. According to the Trademark Law of the PRC, using a trademark that is identical or similar to a registered trademark on similar products, which may easily confuse the consumers, may constitute trademark infringement. We believe that we have grounds to defend ourselves against any future potential claims seeing that Dongguan Jia Jun whose principal activity is the manufacturing of discrete semiconductors, having made reasonable enquiries, is engaged in different business activities which bear no close resemblance to those of the trademark registers in terms of scope and range. Our Controlling Shareholders have also agreed to indemnify us for all claims, costs, expenses and losses arising from this incident in due course. Based on the above, our PRC Legal advisers are of the view that the potential liability arising from such incident will not cause material adverse impact on our business operations. We believe that we have taken all reasonable measures to prevent any infringement of our own intellectual property rights. Our standard employment agreement applicable to our operation team includes a covenant that requires our employees to keep the information and technical know-how that they have access to during the term of the employment confidential and not to disclose the same to any third party.

We have registered six domain names as at the Latest Practicable Date. Please refer to the sub-section headed “*Appendix IV – Statutory and General Information – Further Information about the Business – 2. Intellectual Property Rights*” of this prospectus for further details on the intellectual rights of our Group.

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COMPETITION

The discrete semiconductor market has high market share concentration and is largely controlled by multinational or national companies who are long established participants in the market. Please refer to the sub-section headed “*Industry Overview – Market Players and Competitive Landscape*” of this prospectus for details.

We principally compete with discrete semiconductor manufacturers who offer similar products. Our Directors consider our potential competitors include, but are not limited to, Jiangsu Changjiang Electronics Technology Co., Ltd., Yangzhou Yangjie Electronic Technology Co., Ltd. and Suzhou Good-Ark Electronics Co., Ltd. As a relatively new market entrant, we recognise our lack of history in dealing with end customers. Moreover, we carry limited product offerings compared to leading market players which have been in the market for a longer period and with a wide range of products. However, we compete with our competitors on factors such as product quality, customisation services, price and time-to-market. We believe we enjoy a strong reputation with our customers for providing high-quality products consistently. We also constantly strive to differentiate ourselves from our competitors through providing tailor-made engineering solutions services that complement our product sales. Moreover, we have also established a service-oriented and customer-focused culture that strive to maintain close and timely interactions with our customers. For details of our competitive strengths and business strategies, please refer to the sub-sections headed “– *Our Competitive Strengths*” and “– *Our Business Objectives and Strategies*” in this section.

HEALTH, WORK SAFETY AND ENVIRONMENTAL MATTERS

Occupational Health and Safety

We are subject to Production Safety Law of the PRC (中華人民共和國安全生產法), Labor Law of the PRC (中華人民共和國勞動法), Labor Contract Law of the PRC (中華人民共和國勞動合同法) and other relevant laws, administrative regulations, national standards and industrial standards which stipulate requirements to maintain safe production conditions and to protect the occupational health of employees. Pursuant to these requirements, any entity that is not sufficiently facilitated or equipped to ensure safe production may not engage in production and business operation activities. Entities operating in the PRC must provide production safety education and training programmes, as well as a safe working environment to employees. The design, manufacture, installation, use, checking and maintenance of production facilities and equipment are required to conform to applicable national or industrial standards.

We have implemented safety measures at our production facilities and established guidelines for work safety and occupational health safety to minimise the risk of injury of employees. We also conduct regular training sessions for employees at our production facilities on accident prevention and management. During the Track Record Period, we had complied with the relevant PRC health and workplace safety regulatory requirements in all material respects and have not had any incidents or complaints which had materially and adversely affected our financial

BUSINESS

condition or business operations. As advised by our PRC Legal Advisers and as confirmed by the local government authorities, we are currently in compliance with applicable work safety laws and regulations in all material respects during the Track Record Period. During the Track Record Period, no administrative sanctions or penalties that have a material and adverse effect on our financial condition or business operations have been imposed upon us for the violation of health and safety laws or regulations. Further, as confirmed by our Directors, during the Track Record Period there were no material work-related injuries or fatalities at our production facilities.

Environmental Matters

We are subject to PRC environmental laws and regulations including the Environment Protection Law of the PRC. These laws and regulations govern a broad range of environmental matters, including air pollution, noise emissions, discharge of waste water and waste residues.

We believe that our production process does not generate environmental hazards and does not otherwise have a significant adverse effect on the environment and that our environmental protection measures are adequate to comply with all applicable current local and national PRC regulations. As advised by our PRC Legal Advisers, we have gone through the required environmental procedures necessary to conduct our business and are currently in compliance with all applicable environmental protection laws and regulations in all material aspects.

During the Track Record Period and up to the Latest Practicable Date, as confirmed by our Directors, we did not receive any complaint from our customers or any other parties in respect of any environmental protection issues, and we have not experienced any material environmental incidents arising from our manufacturing activities. During the same period, no material administrative sanctions or penalties were imposed upon us for the violation of environmental laws or regulations which had an adverse impact on our operations.

INSURANCE

We maintain insurance policies to protect our production facilities in Dongguan and office in Hong Kong against a range of contingencies, including, among others, loss and theft of, and damage to, property, plant and equipment, and inventory in all of our production facilities and warehouses. We also maintain insurance coverage for product liability to cover any potential claims due to accidental bodily injury to third parties and accidental loss of or damage to the property of third parties arising from defects of its products produced. During the Track Record Period and as at the Latest Practicable Date, as confirmed by our Directors, we had not made and did not make or had not been subject to any material insurance claims and/or product liability claims. However, we will continue to review and assess our risk portfolio and make necessary and appropriate adjustments to our insurance practice aligned with our needs and with industry practices in the PRC.

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Based on the assessment of the risk exposure of our operations, our Directors are of the view that our insurance coverage is adequate and in line with industry practice. We will continue to review and assess our risk portfolio and make necessary and appropriate adjustments to our insurance practice in line with our business needs in the PRC and other relevant jurisdictions and with industry practice with respect to our insurance coverage.

HEDGING

We are exposed to foreign currency risks. Approximately 59%, 73% and 69% of our Group's sales were denominated in currencies other than the functional currency of the group entity making the sale, whilst almost approximately 6%, 11% and 22%, respectively, of costs were not denominated in the group entity's respective functional currency for each of the two years ended 31 December 2013 and 2014, and the three months ended 31 March 2015. As at the Latest Practicable Date, we had not entered into any hedging transactions against foreign currency risks or interest rate risks. While we may seek to enter into hedging transactions in the future, the availability and effectiveness of currency or interest rate hedging transactions may be limited, and we may not be able to hedge our exposure to foreign currency risks or interest rate risks successfully, or at all.

EMPLOYEES

As at the Latest Practicable Date, we had a workforce of 242 full-time employees (including our two executive Directors but excluding our three independent non-executive Directors) of whom approximately 95.9% were employed in the PRC and approximately 4.1% in Hong Kong. We have adopted a labour union for our employees in the PRC. Our Directors believe that the relationship and cooperation between the management and staff has been good and this is expected to continue in the future. There has not been any incidence of work stoppages, labour disputes, litigation, claims, administrative action or arbitration relating to labour disputes that has affected our operations during the Track Record Period.

We generally recruit our employees from the open market. We actively pursue a strategy to recruit, develop and retain talented employees by (i) providing them with training programs on a regular basis to keep them abreast of their knowledge in the products we distribute, technology development and market conditions of the electronic industry; (ii) aligning employees' compensation and incentives with their performance; and (iii) providing them with a clear career path with opportunities for additional responsibilities and promotions.

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The table below sets out a breakdown of our employees by function as at the Latest Practicable Date:

	<u>Hong Kong</u>	<u>PRC</u>	<u>Total</u>	<u>% of Total</u>
Production	–	141	141	58.3
Sales and marketing	1	7	8	3.3
Finance and accounting	2	5	7	2.9
Procurement	1	6	7	2.9
Quality management	–	41	41	16.9
Inventory management and logistics	1	15	16	6.6
Management	3	–	3	1.2
General administration and others	<u>2</u>	<u>17</u>	<u>19</u>	<u>7.9</u>
Total	<u>10</u>	<u>232</u>	<u>242</u>	<u>100.0</u>

Our employees in Hong Kong are required to participate in the Mandatory Provident Fund scheme under which we are required to contribute a fixed percentage of the employees' payroll costs (the maximum mandatory contributions is HK\$1,500 monthly) to the scheme. Contributions to the Mandatory Provident Fund are recognised as an expense in the period in which the related service is performed.

For the employees of our PRC subsidiary, we make contributions to various government sponsored employee benefit funds, including housing provident fund, basic pension insurance fund, basic medical insurance, and unemployment insurance, maternity insurance and work related injury insurance funds in accordance with applicable PRC laws and regulations. Based on the legal opinion from the PRC counsel/confirmation from the relevant PRC authorities, we have complied with all relevant labour and social welfare laws, regulations and requirements in the PRC, save for the matters as disclosed in the sub-section headed “– *Non-Compliance*” in this section.

We had in the past employed staff from a service dispatching company, as the replacement of a directly employed staff takes a longer time than replacing staff from a service dispatching company. Such employees from the service dispatching company received salaries and other social benefits (including pension, medical, unemployment, work-related injuries and maternity benefit plans) as required by law from the service dispatching company, who was their direct employer. We ceased such arrangement with the service dispatching company in October 2014.

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PROPERTY AND PLANT

As at the Latest Practicable Date, our Group leased and occupied properties consisting of workshops, warehouses and offices and staff dormitory located at Dongguan, the PRC, which are used as our production facilities. Set out below is a summary of our production facilities:

<u>Address and description of location</u>	<u>Use of property</u>	<u>Approximate area (sq.m)</u>	<u>Expiration of lease</u>
Room 102 Building A No. 3 Xincheng Avenue Songshan Lake Dongguan The PRC	Plant	2,150	30 April 2023
Room 102 Building A No. 3 Xincheng Avenue Songshan Lake Dongguan The PRC ⁽¹⁾	Residential	N/A	30 April 2023

Note:

- (1) These premises are used by us as dormitory for the employees, the rented area of which varies from month to month based on the actual number of employees residing in such dormitory. Since there is no fixed floor area, we are not able to register the lease agreement of the property with the relevant PRC authorities. According to the Law of the People's Republic of China on the Administration of Urban Real Estate (《中華人民共和國城市房地產管理法》) and the Measures for Administration of Leases of Commodity Real Estate (《商品房屋租賃管理辦法》), the relevant parties that enter into a lease agreement without due registration with the appropriate local authorities could be subject to a penalty of not more than RMB10,000 if they fail to rectify their failure of registration within a specified time. Therefore, we could be subject to a fine up to RMB10,000 for non-registration of the lease agreement of this property. Notwithstanding the fine, as advised by our PRC Legal Advisers, a failure to register a lease agreement will not invalidate the lease agreement. Our PRC Legal Advisers have advised us that we have been lawfully using and occupying the premise pursuant to the lease agreements, our rights as lessee would take precedence over any lessee under a subsequently registered lease agreement. Moreover, we believe that this property is not material or critical to our business and it can, if necessary, be replaced by other comparable alternative premise without any material adverse effect on our business, results of operations and financial condition.

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In addition, we have also leased an office from an Independent Third Party for our headquarters in Hong Kong. Our Directors confirm that we are using these leased properties in accordance with the permitted usages under the relevant lease agreements. As at the Latest Practicable Date, we were not aware of any challenge being made by any third party on the titles of any of the above properties which might affect our current occupation. Our PRC Legal Advisers have advised us that our leased properties in the PRC possess all required land title certificates.

INTERNAL CONTROL

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

- we have engaged the Internal Control Consultant to perform internal controls review in connection with our internal control policies;
- we have improved the existing internal control framework by adopting a set of internal control manual and policies, which cover corporate governance, risk management, operations and legal matters;
- we will assess and monitor the implementation of our internal control manual and policies by the relevant departments and companies in our Group through regular audits and inspections; and
- provide internal training to staff as appropriate in order to enable them to follow the internal control and corporate governance procedures.

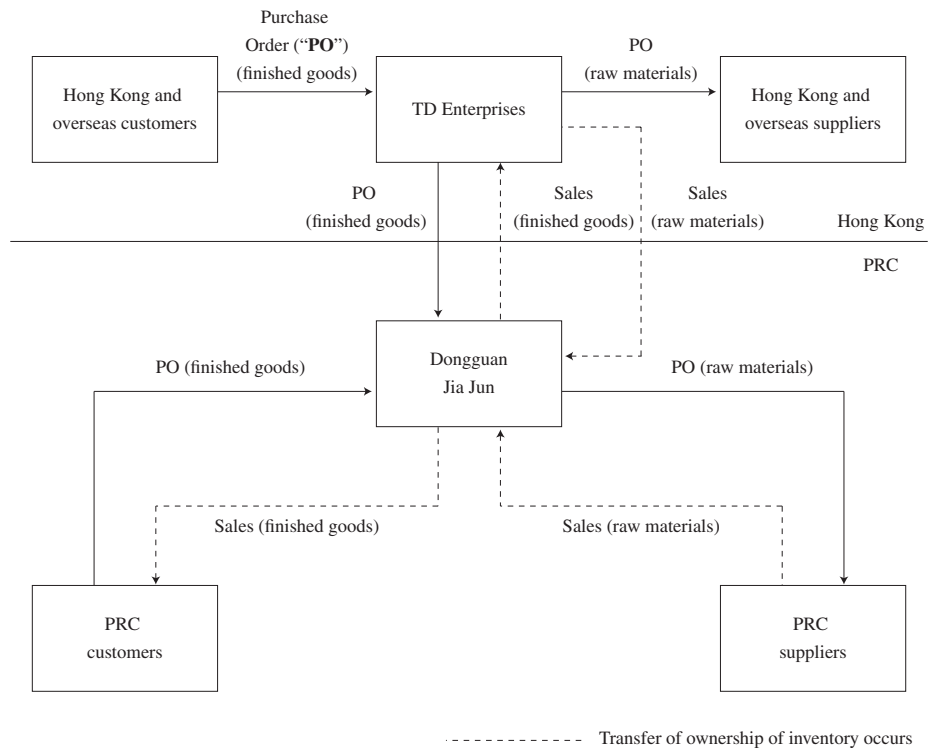
We will continuously monitor and improve our management procedures to ensure that effective operation of those internal controls are in line with the growth of our business and good corporate governance practice.

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TRANSFER PRICING ARRANGEMENT

Commercial Rationale

During the Track Record Period, we primarily manufactured our products through our PRC subsidiary Dongguan Jia Jun, which sold the finished goods to our Hong Kong subsidiary TD Enterprises for onwards sales to our Hong Kong and overseas customers. When TD Enterprises receives purchase orders from Hong Kong and overseas customers, it will channel the relevant purchase orders to Dongguan Jia Jun, our manufacturing arm in the PRC. The respective finished products manufactured by Dongguan Jia Jun are then sold to TD Enterprises who then on-sells the finished products to our Hong Kong and overseas customers. TD Enterprises may, at request of Dongguan Jia Jun, acquire and redirect to it certain raw materials used for manufacturing finished products from Hong Kong and overseas third-party suppliers and invoice such raw materials and transportation costs to Dongguan Jia Jun. Such transactions between TD Enterprises and Dongguan Jia Jun were carried out in the mode of general import and export. A diagram detailing the transfer pricing arrangement between TD Enterprises and Dongguan Jia Jun is set out below:



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Pursuant to the general import and export arrangement set out above, in addition to the manufacturing work performed to Satisfy purchase orders channeled from TD Enterprises, Dongguan Jia Jun retained the capacity, autonomy and flexibility of conducting business with third-party customers in the PRC. Dongguan Jia Jun also had the autonomy of procuring raw materials from third-party suppliers in the PRC to fulfill its production needs instead of relying solely upon raw materials procured by TD Enterprises. Therefore, given that there were considerable referencing third-party transactions in respect of sales of finished goods and purchases of raw materials, our Directors confirmed that the relevant intra-Group manufacturing work were conducted on normal commercial terms.

In respect of the manufacturing work performed by Dongguan Jia Jun for TD Enterprises, Dongguan Jia Jun and TD Enterprises agreed upon the prices of finished goods after taking into consideration factors including the technical specifications and costs and requirements of raw materials. In respect of the sales to TD Enterprises, Dongguan Jia Jun estimated the costs, carried out and monitored the overall production processes, and arranged export logistics. During the Track Record Period, Dongguan Jia Jun derived a profit by way of sales of the finished goods to TD Enterprises after deducting the costs of materials, equipment and labour incurred.

Tax Implications and Compliance

For information regarding the transfer pricing-related laws and regulations in Hong Kong and the PRC, please refer to the sub-section headed “*Regulatory Overview – Laws and Regulations Relating to Taxation – Transfer Pricing Adjustments*” of this prospectus.

Pursuant to the EIT Law, the EIT Rules and the STA Rules, transactions in respect of the purchase, sale and transfer of products between, among others, enterprises under direct or indirect control by the same third party are regarded as related party transactions. Since TD Enterprises and Dongguan Jia Jun are both indirectly wholly-owned subsidiaries of the Company, transactions between these parties are regarded as related party transactions that are administered by the EIT and Hong Kong profits tax regime.

From EIT perspectives, according to the EIT Law, EIT Rules and STA Rules, related party transactions should comply with the arm’s length principle (獨立交易原則) and if the related party transactions fail to comply with the arm’s length principle results in the reduction of the enterprise’s taxable income, the tax authority has the power to make an adjustment following certain procedures. Pursuant to such laws and regulations, any company entering into related party transactions with another company shall submit an annual related party transactions reporting form (年度關聯業務往來報告表) to the supervising tax authority, but enterprises which meet one of the following standards are exempt from preparing further contemporaneous documents report (同期資料): (1) the annual amount of related party purchase/sales is lower than RMB200 million and the annual amount of other related party transactions is lower than RMB40 million; (2) related party transactions are involved in the performance of arrangements for advance pricing; or (3) foreign shareholding percentage is lower than 50% and the related party transactions only incur among domestic associated parties.

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We have engaged the Tax Consultant which is an Independent Third Party in June 2014 to review our tax compliance matters and transfer pricing policies so as to evaluate specifically our Group's compliance with applicable major tax regulations and transfer pricing guidelines during the Track Record Period (the "**Tax Review Report**"). In conducting the transfer pricing policies review starting from June 2014, our Tax Consultant performed an analysis of intra-Group transactions by, among other things: (i) reviewing the financial results, tax filing records and correspondence with the relevant tax authorities of TD Enterprises and Dongguan Jia Jun; (ii) re-computing and reconciling the necessary tax provisions of TD Enterprises and Dongguan Jia Jun; (iii) comparing the profit margin of Dongguan Jia Jun with that derived from other companies engaging in similar industries or activities; and (iv) reviewing the confirmation letter from the competent PRC tax authority dated 18 May 2015 that Dongguan Jia Jun did not commit any tax evasion, tax avoidance or violation of tax law. After the tax review and benchmarking checking, our Tax Consultant concluded that our Group was in full compliance with the applicable transfer pricing guidelines in Hong Kong and the PRC which requires related party transactions to be carried out at arm's length basis during the Track Record Period, and no additional income tax provision arising from transfer pricing adjustment would be required during the Track Record Period.

Moreover, the total annual amount of the related party transactions engaged by Dongguan Jia Jun was lower than RMB200 million for each of the two years ended 31 December 2013 and 2014 and Dongguan Jia Jun did not encounter a loss during the Track Record Period. Dongguan Jia Jun was not required to submit any additional contemporaneous documents report for the years ended 31 December 2013 and 2014.

We have also adopted the following measures to ensure ongoing compliance with the relevant transfer pricing laws and regulations in Hong Kong and the PRC:

- Our Group's transactional transfer pricing arrangements are applied and monitored to ensure compliance with the arm's length principle;
- Intercompany balances and transactions are reconciled within our Group from time to time and at report periods to ensure that no significant difference exists;
- Related party transaction reporting forms prepared by Dongguan Jia Jun are reviewed and compared by our Group's financial controller to identify any discrepancy before submitted to the PRC tax authority, and all the reporting forms are properly filed and maintained in Dongguan Jia Jun for inspection; and
- Our Group's financial controller will monitor the amount of related party transactions to determine whether contemporaneous documents are required to be prepared, and if so required, observe the deadline and make such filings with the relevant tax authority; and our Chief Financial Officer will be responsible for the review, on a regular basis, of our Group's compliance with relevant transfer pricing laws and regulations in Hong Kong and the PRC and where necessary, independent tax consultant will be consulted.

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As at the Latest Practicable Date, our Directors were not aware of any inquiry, audit or investigation by any tax authority in the PRC or Hong Kong with respect to our intra-Group transactions. Having reviewed and assessed our transfer pricing arrangements relating to transactions between Dongguan Jia Jun and TD Enterprises, our Directors are also of the view that, although such intra-Group transactions remain subject to audit and scrutiny by the relevant PRC or Hong Kong tax authorities, we have reasonable grounds to defend against any legal challenges to our transfer pricing arrangements. Our Tax Consultant is of the view that we have been in compliance with the relevant tax laws and regulations and guidelines in Hong Kong and the PRC. We have engaged our Internal Control Consultant to review our internal control system and our Company has, among others, adopted all the suggested measures in relation to the ongoing compliance with the relevant transfer pricing laws and regulations in the PRC and Hong Kong. Having considered the above and the internal control measures adopted (which were implemented in December 2014), our Directors are of the view, and the Sole Sponsor concurs, that such internal control measures are sufficient and effective. For details of our risks in relation to transfer pricing, please refer to the sub-section headed “*Risk factors – Risks relating to conducting business in the PRC – Our operations may be subject to transfer pricing adjustment*” of this prospectus.

LICENSE, REGULATORY APPROVALS AND COMPLIANCE

As advised by our PRC Legal Advisers and confirmed by our Directors, during each of the two years ended 31 December 2013 and 2014, and the three months ended 31 March 2015, we have (i) obtained all applicable licenses, permits or certificates necessary to conduct our business in the PRC; (ii) complied in our operations with all relevant laws and regulations of the PRC and the terms and conditions set out in the relevant approvals or licenses granted to us in all material aspects; and (iii) complied in all material aspects with the labour laws and environmental laws in the PRC, save as disclosed in the prospectus.

LEGAL PROCEEDINGS

As at the Latest Practicable Date, we were not engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim is known to our Directors to be pending or threatened by or against us, that would have a material adverse effect on our business, results of operations or financial condition.

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NON-COMPLIANCE

The following table sets forth a summary of our non-compliance incidents during the Track Record Period and up to the Latest Practicable Date.

No.	Non-compliance Incident	Reasons	Remedial Measures to Rectify the Non-compliance and the Enhanced Internal Control Measures	Possible Legal Consequences and Impact
1.	<p>Social insurance and housing provident fund contribution</p> <p>In accordance with the relevant PRC laws and regulations, we are required to contribute to a number of employee welfare schemes for the benefit of our employees. Such schemes require us to make payments for social insurance premiums and housing provident fund contributions.</p> <p>During the Track Record Period, we did not make full contribution in respect of the social insurance and the housing provident fund for certain employees in the PRC, nor did we receive any notification from the relevant authorities alleging our non-compliance and demanding such contributions.</p> <p>The total contribution of social insurance and housing provident fund which was underpaid by our PRC subsidiary during the Track Record Period amounted to approximately HK\$1.4 million.</p>	<p>Our human resources department staff were not familiar with the relevant laws and regulations.</p>	<p>We have made provisions for such outstanding social insurance premiums and housing provident fund contributions in the amount of approximately HK\$1.1 million and approximately HK\$0.3 million, respectively, in our financial statements for the Track Record Period, and will promptly settle any social insurance and/or housing provident fund contribution if subsequently required by the relevant authorities.</p> <p>In addition, our Controlling Shareholders have agreed to indemnify us to the extent such provisions are inadequate to cover any claims, demands, fines and penalties we incur as a result of such incidents of non-payment.</p> <p>We have been paying the social insurance and housing provident fund contributions for our employees in PRC in accordance with the standards confirmed by the relevant PRC authorities.</p> <p>We have established a written formal policy and implemented internal control measures for social insurance and housing provident fund contributions in December 2014.</p> <p>Specifically, such policy and measures include the following:</p> <ul style="list-style-type: none"> (i) when new employees commence their positions with us, we make full contributions to the social insurance schemes and the housing provident funds for these employees in accordance with the standards confirmed by the relevant PRC authorities, and our human resources department is required to prepare employment records for each employee and complete registration with the social insurance schemes and the housing provident funds; (ii) our finance department is required to make timely payments to the social insurance schemes and the housing provident funds each month; and (iii) our internal control committee has been established to ensure the compliance with our internal control policies and the implementation of new internal control policies when necessary. 	<p>Our PRC Legal Advisers have advised us that, in relation to the social insurance premiums, we may be required by the relevant PRC authorities to make such outstanding payments in the future and a daily surcharge of 0.05% on any delinquent payments may be imposed on us. If this occurs, and if we fail to make such payments within the time period specified by the authorities, we may be liable to a fine equal to one to three times the amount of outstanding contributions.</p> <p>Our PRC Legal Advisers have advised us that, in relation to the housing provident fund contribution, we may be required by the relevant authorities to pay such outstanding amounts in the future. If this occurs, and if we fail to make such contributions within the time period specified by the relevant PRC authorities, such relevant PRC authorities may apply to court for compulsory execution.</p> <p>Our PRC Legal adviser are of the view that the possibility that the relevant authorities will order us to pay any past outstanding social insurance and surcharge or housing provident fund or penalise us for our past non-compliances is low and therefore, we are of the view that such incidents will not have any material adverse impact on our business, results of operations, and financial condition.</p>

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Views of Our Directors and the Sole Sponsor

Our Directors are of the view that the above non-compliance incident of our Company during the Track Record Period does not and will not have any material financial or operational impact on us. After considering (i) our remedial measures, (ii) the facts and circumstances leading to the non-compliance incident disclosed herein, (iii) the advice provided by our PRC Legal Advisers, and (iv) as confirmed by our Directors, such non-compliance incident was not conducted intentionally, or involved any issue in the integrity, character or competence of our Directors or senior management, our Directors are of the view and the Sole Sponsor concurs with the Directors' view that:

- (i) our enhanced internal control measures in place are adequate and effective; and
- (ii) the non-compliance incident of our Group does not affect the suitability of our Directors under Rules 5.01 and 5.02 of the GEM Listing Rules or our suitability for listing under Rule 11.06 of the GEM Listing Rules.