The following discussion and analysis should be read in conjunction with the Accountants' Report (together with the accompanying notes) set out in "Appendix I – Accountants' Report" of this prospectus.

The combined financial information is reported in HK dollars and was prepared and presented in accordance with HKFRSs. Information included in this section that has not been extracted or derived from the Accountants' Report has been extracted from or derived from unaudited management accounts or other records. You should read the entire Accountants' Report and not merely rely on the information contained in this section.

The following discussion and analysis contains certain forward-looking statements that involve risks and uncertainties. These statements are based on assumptions and analyses made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. You should not place undue reliance on any such statements. Our actual future results could differ materially from those discussed in the forward-looking statements as a result of various factors, including those set out in the section headed "Risk Factors" and "Forward-Looking Statements" of this prospectus.

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 amount of our self-manufactured products are insufficient to meet our customers' requirement, which happens mostly before or at the initial stage of the launch of commercial production of our self-manufactured products, our trading products may also 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.

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.

SIGNIFICANT FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our financial condition and results of operations have been and will continue to be affected by a number of factors, including those discussed below.

Global Economic Conditions

Our financial condition and results of operations are dependent on the health of global economic conditions and levels of global consumption in general. Our customers use our products to manufacture consumer and industrial portable electronics such as mobile phones, display monitors, LED televisions, portable electronic equipment and power supplies. The demand from our customers, therefore, depends on the overall consumer demand for the end-products they manufacture. If the demand for the products and services we provide declines as a result of changes in global economic conditions or does not grow at the pace we anticipate, our business, results of operations and financial condition could be adversely affected.

In addition, the global financial and economic crisis could adversely affect the ability of our customers and suppliers to obtain financing for significant purchases and operations and could result in a decrease in, or cancellation of, orders for our products or limitations on the quantity of raw materials and components supplied to us due to reduced production outputs. Furthermore, these uncertain economic conditions could make it difficult for us and our customers and suppliers to accurately forecast and plan future business activities, which could cause our customers to slow down spending on our products, thus delaying and lengthening sales cycles. If the market in which we operate deteriorates due to these global economic conditions, our business, results of operations and financial condition could be adversely affected.

Change in PRC Government Policies, Laws and Regulations

For each of the two years ended 31 December 2013 and 2014 and the three months ended 31 March 2015, approximately 42.0%, 43.6% and 40.8%, respectively, of our turnover was generated from the PRC, and a significant portion of our assets are located in the PRC. Our operations are subject to the PRC laws and regulations, which include but are not limited to laws and regulations governing the semiconductor manufacturing industry in which we operate, foreign investment, labour and insurance matters, tax, levy, tariff, foreign exchange and environmental protection. Any significant change in the scope or application of these laws or regulations or any promulgation of new laws and regulations may increase our costs of production and have an adverse effect on our results of operations and financial condition. Furthermore, PRC production safety and environmental laws and their implementation regulations govern the operations of our business. Any failure to comply with such laws and regulations could result in fines, suspension of operations, loss of licences, penalties or lawsuits. There can also be no assurance that the PRC government will not impose additional or stricter laws or regulations in the future, which could give rise to significant compliance costs that we may be unable to pass on to our customers and, as a result, adversely affect our business, results of operations and financial condition.

Change in Product Sales Mix

Our financial condition and results of operations are affected by the mix of turnover derived from sales of our self-manufactured products and trading of semiconductors sourced from third-party suppliers. During the Track Record Period, sales of our self-manufactured products generally resulted in higher profit margins than trading of semiconductors sourced from third-party suppliers. For each of the two years ended 31 December 2013 and 2014 and the three months ended 31 March 2015, gross profit generated from sales of our self-manufactured products accounted for approximately 59.1%, 75.0% and 85.6%, respectively, of our total gross profit, while gross profit generated from trading of products sourced from third-party suppliers accounted for approximately 40.9%, 25.0% and 14.4%, respectively, of our total gross profit for the same periods.

In addition, our production lines can assemble and produce semiconductor devices with different dimensions and specifications with slight adjustments. We are therefore able to adjust to and take advantage of changing market conditions to produce the products which are in highest demand. Since different products have different average sales prices, changes in our product mix of our self-manufactured products could affect our overall gross profit margins.

Change in Customer Mix

Our financial condition and results of operations are affected by the mix of our customers. Prices of our products vary from customer to customer, depending on geographic locations of the customers, relationship with customers, the business the customers are engaged in and the order size. Our customers usually include (i) traders customers which generally on-sell our products to others and/or (ii) manufacturers customers which use our products as components, and either manufacture end-products on an OEM/ODM basis for others or in their own brands. Generally, we are able to charge higher prices for products sold to manufacturer customers than trader customers, and overseas customers than PRC customers.

Reliance on Top Five Customers

During the Track Record Period, our top five customers accounted for approximately 68.5%, 42.1% and 36.2%, respectively, of our turnover for each of the two years ended 31 December 2013 and 2014 and the three months ended 31 March 2015. Sales to our largest customer accounted for approximately 23.3%, 10.5% and 12.4%, respectively, of our turnover for the same periods. As such, our ability to maintain a close and satisfactory relationship with our customers is important, otherwise we could lose business from them, either partially or completely. Moreover, if any of our key customers reduces, delays or cancels its orders from us, or the financial condition of our key customers deteriorates, our business, results of operations and financial condition could be adversely affected.

On the other hand, we have not entered into any long-term agreements with our customers. Our sales are typically made on the basis of individual purchase orders, which could be altered, reduced or cancelled at any time by our customers. As a result, our customers could change their order levels or stop placing orders altogether with little or no notice to us. We cannot assure you that we will be able to obtain orders from other customers to cover such unpredictable reduction in orders, and a failure to do so could adversely affect our business, results of operations and financial condition.

Increasing Labour Costs

We rely on our employees located in China for our manufacturing and operating activities. The average wages paid for manufacturing labour in China have increased recently and may continue to increase as a result of macroeconomic and other policies of the PRC Government. On 29 June 2007, the PRC Government promulgated the Labour Contract Law, which became effective on 1 January 2008 as amended on 28 December 2012. The Labour Contract Law imposes stricter requirements in terms of signing labour contracts, paying remuneration, stipulating probation and penalties and dissolving labour contracts. It also requires the terms of employment contracts to be placed in writing within one month of the commencement of an employment relationship, which may make hiring temporary workers more difficult. A minimum wage requirement has also been incorporated into the Labour Contract Law. If we are unable to offset the increase in our labour costs or pass along these increased labour costs to customers, our business, results of operations and financial condition could be adversely affected.

Capacity Utilisation Rates

Given the high fixed costs of our operations, decreases in capacity utilisation rates can have a significant effect on our business, results of operations and financial condition. Accordingly, our ability to maintain or enhance our gross profit margin depends, in part, on maintaining satisfactory capacity utilisation rates for our production lines. We plan the utilisation of our production capacity based primarily on our projected orders from our customers. However, our customers generally do not place purchase orders far in advance of the required shipping dates. In addition, due to the cyclical nature of the semiconductor industry, our customers' purchase orders could vary significantly from period to period. As a result, we do not typically operate with any significant backlog, which makes it difficult for us to forecast our sales in future periods. We cannot guarantee the accuracy of our internal projections for demands of our products and the effectiveness of our planning for production capacity utilisation. If our projections are inaccurate, there may be periods when we will have idle production capacity for all or some types of our products. Any significant increase in our idle production capacity during any particular period could adversely affect our results of operations for that period.

In addition, in the event that a customer reduces or cancels orders unexpectedly after we have invested to increase production capacity, our gross profit and operating income could be adversely affected because we may not be able to recover our expenditures for inventory purchased in preparation for customer orders and we may not be able to realise optimal asset utilisation of our production facilities.

Furthermore, since our customers are not obligated to purchase any minimum amount of our products, we cannot guarantee that these customers or any other customers will place orders with us in the future at the same levels as in prior periods. Similarly, there is no assurance that any of these or other present or future customers will not terminate their agreements with us or significantly change, reduce or delay orders placed with us. Such circumstances could lead to a significant increase in our idle production capacity and adversely affect our business, results of operations and financial condition.

Reliance on Top Five Suppliers

Our operations require that we obtain adequate supplies of raw materials, such as silicon wafers, leadframes, gold wires and moulding compound for our manufacturing business and semiconductors for our trading business. Any shortage in the supply of some materials or components, whether by specific vendors or by the semiconductor industry generally, could result in occasional industry-wide price adjustments and delivery delays, which could subsequently adversely affect our turnover and profitability.

We are dependent on a few major suppliers. During the Track Record Period, the amount of purchases from the five largest suppliers of our Group accounted for approximately 91.1%, 70.0% and 72.9%, 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. During the Track Record Period, purchases from our largest supplier accounted for approximately 51.5%, 27.2% and 25.8%, respectively, of our total purchases. Please refer to the sub-section headed "*Business – Procurement and Suppliers – Supply Agreements*" of this prospectus for a description of the salient terms of our supply agreements. Accordingly, we heavily rely on the continued supply of products from a few selected suppliers. In the event that our supply agreements with these suppliers are terminated, interrupted, or adversely modified, so that we are unable to obtain adequate supplies of the necessary raw materials in a timely manner or if there are significant increases in the costs of raw materials that we cannot pass on to our customers, our business, results of operations and financial condition could be adversely affected.

Fluctuations in Foreign Currency Exchange Rates

Our functional currency is the Hong Kong dollars, but some of our business transactions are denominated in various other currencies, primarily the Renminbi and the US dollars, which exposes us to foreign exchange risk. We are exposed to foreign currency risk through sales and purchases that are denominated in a currency other than the functional currency of the operations to which they relate. Any significant changes in the exchange rates between our functional currency and these various other currencies may result in losses for us and could adversely affect our business, results of operations and financial condition.

BASIS FOR PREPARATION

Our Company was incorporated as an exempted company with limited liability in the Cayman Islands under the Companies Law on 10 September 2014. Through a corporate reorganisation as more fully explained in the section headed "*History, Reorganisation And Group Structure*" of this prospectus, our Company became the holding company of the companies now comprising our Group on 22 September 2015. The combined statements of profit or loss and other comprehensive income, the combined statements of changes in equity and the combined statements of cash flows included the results and cash flows of the companies now comprising our Group as if the current group structure had been in existence throughout the Track Record Period. The combined statements of financial position of our Group as at 31 December 2013 and 2014 and 31 March 2015 have been prepared to present the assets and liabilities of the companies now comprising our Group as if the current group structure had been in existence as at those dates. The combined financial statements, which are presented in Hong Kong dollars, have been prepared in accordance with HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**") and the disclosure requirements of the GEM Listing Rules. HKFRSs include Hong Kong Accounting Standards and interpretations.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The following significant accounting policies, which are important to our results of operations and financial position, require significant judgment and estimates on the part of our management, often as a result of the need to make estimates of matters that are inherently uncertain. In addition, we discuss our turnover recognition policy below because of its significance, even though it does not involve significant estimates or judgments. We also have other policies that we consider to be key accounting policies, which are set out in detail in notes 3 and 4 to "*Appendix I – Accountants' Report*" of this prospectus.

Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable for goods sold in the normal course of business, net of discounts and sales related taxes.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- our Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- our Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of turnover can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to our Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to our Group and the amount of income can be measured reliably. Interest income from financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Plant and Equipment

Plant and equipment held for use in the production of goods, or for administrative purposes are stated in the combined statements of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of plant and equipment, less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Plant and equipment are depreciated on a straight-line basis at the following rate per annum:

Leasehold improvements	33% or over the lease term, whichever is shorter
Plant and machinery	10%
Furniture, fixtures and equipment	33%

Leasing

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost of inventories are calculated using the first-in, first-out method. Net realisable value represented the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sales.

Deferred Tax

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

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Financial Instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial Assets

Our Group's financial assets are classified into loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective Interest Method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis.

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, pledged deposit and bank balances and cash) are measured at amortised cost using the effective interest method, less any identified impairment losses.

Impairment of Financial Assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest and principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as trade and other receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include our Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period or observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade and other receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial Liabilities and Equity Instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity Instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by a group entity are recognised at the proceeds received, net of direct issue costs.

Financial Liabilities

Financial liabilities including trade and other payables and amounts due to shareholders and a related company are subsequently measured at amortised cost, using the effective interest method.

Effective Interest Method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Derecognition

Our Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

Our Group derecognises financial liabilities when, and only when, our Group's obligations are discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Estimated Allowance for Inventories

The management of the Group reviews an ageing analysis at the end of each reporting period and makes allowance for obsolete and slow-moving items identified that are no longer suitable for sale or use. The Group makes allowance for inventories based on the assessment of the net realisable value. The management estimates the net realisable value for inventories based primarily on the latest invoice prices and current market conditions.

As at 31 December 2013 and 2014 and 31 March 2015, the carrying amounts of inventories were approximately HK$2.7 million, HK$11.5 million and HK$11.7 million respectively and no allowance had been recognised during the Track Record Period or as at 31 December 2013 and 2014 and 31 March 2015.

Estimated Impairment Loss of Trade and Other Receivables

When there is objective evidence of impairment loss of trade and other receivables, the Group takes into consideration the estimation of future cash flows of respective trade and other receivables. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise.

As at 31 December 2013 and 2014 and 31 March 2015, the carrying amount of the Group's trade and other receivables were approximately HK$28.5 million, HK$53.8 million and HK$54.3 million respectively. No impairment had been recognised during the Track Record Period or as at 31 December 2013 and 2014 and 31 March 2015.

COMBINED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

The following table sets forth a summary, for the periods indicated, of our combined results of operations. Our historical results presented below are not necessarily indicative of the results that may be expected for any future period.

	Year Ended 31 December		Three Months Ended 31 March	
	2013	2014	2014	2015
	(HK$'000)	*(HK$'000)*	*(HK$'000)* (unaudited)	*(HK$'000)*
Turnover	45,685	159,323	23,309	49,023
Cost of sales	(37,105)	(116,422)	(17,672)	(33,056)
Gross profit	8,580	42,901	5,637	15,967
Other income	2	7	1	84
Selling and distribution costs	(318)	(5,457)	(370)	(2,401)
Administrative expenses	(2,083)	(15,654)	(1,496)	(5,807)
Profit before tax	6,181	21,797	3,772	7,843
Income tax expenses	(1,373)	(5,581)	(912)	(2,042)
Profit for the year/period	4,808	16,216	2,860	5,801
Other comprehensive income (expense) for the year/period				
Item that may be reclassified subsequently to profit or loss:				
Exchange difference arising on translation of a foreign operation	202	27	(226)	(335)
Total comprehensive income for the year/period attributable to owners of the Company	5,010	16,243	2,634	5,466

DESCRIPTION OF SELECTED COMPONENTS OF COMBINED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Turnover

Turnover represented gross revenue generated from our two business segments, namely, manufacturing business and trading business.

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

We started off as a trading company engaged in the distribution of semiconductors sourced from third-party suppliers in December 2012 and our production facilities commenced operations in September 2013. As a result, trading of products sourced from third-party suppliers has been our main revenue generator for the year ended 31 December 2013. Since our production facilities commenced operations in September 2013, an increasing portion of our turnover was derived from sales of our self-manufactured products. 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 requirements. To complement sales of our self-manufactured products, upon request of our customers, we still assist them in sourcing from third-party suppliers, primarily semiconductors that our customers specifically require, however, are not manufactured by us and sell those products sourced from third-party suppliers without modification along with our self-manufactured products to our customers as a package. 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 also overlap with our existing self-manufactured product offerings. 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. The turnover attributable to our sales of self-manufactured products accounted for approximately 24.9%, 50.7% and 65.3%, 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 attributable to trading of semiconductors sourced from third-party suppliers accounted for approximately 75.1%, 49.3% and 34.7%, respectively, of our total turnover for the same periods. As our trading of products primarily complements sales of self-manufactured products when we provide solution kits services to our customers, although trading of products sourced from third-party suppliers decreased as a percentage of our total turnover, the turnover attributable to trading of products sourced from third-party suppliers increased during the Track Record Period as our business operations grew.

Manufacturing Business

We are primarily involved in the packaging, also called assembly, and testing processes of semiconductor manufacturing. 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. For details of the principal types of discrete semiconductor packages we manufacture and their respective features and applications, please refer to the sub-section headed "*Business – Products and Services Provided – Self-Manufactured Products*" of the prospectus. The average sales prices of our self-manufactured products vary year-on-year or period-over-period primarily depending on the mix of different types of discrete semiconductors encapsulated into the packages we manufactured within the year or period.

The following table sets out turnover, sales volume and average sales prices of our self-manufactured products by package types during the Track Record Period:

	Year ended 31 December								Three months ended 31 March							
	2013				2014				2014				2015			
	Turnover	% of turnover	Units sold	Avg. sales price[1]	Turnover	% of turnover	Units sold	Avg. sales price[1]	Turnover	% of turnover	Units sold	Avg. sales price[1]	Turnover	% of turnover	Units sold	Avg. sales price[1]
	(HK$'000)		*'000*	*HK$*	*(HK$'000)*		*'000*	*HK$*	*(HK$'000)*		*'000*	*HK$*	*(HK$'000)*		*'000*	*HK$*
										(unaudited)						
Package type																
DFN series																
DFN1006-2B	–	–	–	–	9,410	11.7	77,500	0.1214	188	2.0	1,575	0.1194	6,619	20.7	53,054	0.1248
DFN1006-2H	4	0.0	35	0.1143	1,013	1.3	12,088	0.0838	66	0.7	590	0.1119	282	0.9	2,944	0.0958
DFN1006-3H	–	–	–	–	82	0.1	645	0.1271	–	–	–	–	537	1.7	5,470	0.0982
DFN1608-2H	–	–	–	–	33	0.0	152	0.2171	–	–	–	–	166	0.5	1,100	0.1509
SOD series																
SOD123FL	11,114	97.6	59,867	0.1856	41,214	51.0	269,535	0.1529	8,622	93.3	45,770	0.1884	9,199	28.7	64,322	0.1430
SOD123HE	–	–	–	–	12,370	15.3	95,390	0.1297	–	–	–	–	4,935	15.4	32,377	0.1524
SOD323	–	–	–	–	13,804	17.1	300,562	0.0459	343	3.7	7,743	0.0443	4,924	15.3	104,778	0.0470
SOD323HE	–	–	–	–	6	0.0	51	0.1176	–	–	–	–	17	0.1	109	0.1560
SOT series																
SOT23	–	–	–	–	2,132	2.6	37,483	0.0569	–	–	–	–	2,367	7.4	42,212	0.0561
SOT26	–	–	–	–	356	0.5	968	0.3678	–	–	–	–	1,019	3.2	3,030	0.3363
Others																
TO277	–	–	–	–	35	0.0	38	0.9211	–	–	–	–	1,811	5.6	2,695	0.6720
LBF	272	2.4	1,192	0.2282	290	0.4	1,386	0.2092	23	0.3	115	0.2000	153	0.5	596	0.2567
Total	11,390	100.0	61,094	–	80,745	100.0	795,798	–	9,242	100.0	55,793	–	32,029	100.0	312,687	–

Note:

(1) The average sales prices vary year-on-year or period-over-period depending on the mix of different types of discrete semiconductors encapsulated into the packages within the year or period.

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 growing demand for packages with increased input/output density, smaller size and better heat dissipation characteristics. Since our production facilities commenced operations in September 2013, we have focused our efforts 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 launched into commercial production of two types of DFN series packages in 2014. DFN series packages collectively accounted for approximately 11.4% and 20.0% of the total units of our self-manufactured products sold, and approximately 13.1% and 23.8%, respectively, of our turnover derived from sales of our self-manufactured products for the year ended 31 December 2014 and the three months ended 31 March 2015.

SOD series packages have been our major self-manufactured products during the Track Record Period, which collectively accounted for approximately 98.0%, 83.6% and 64.5% of the total units of our self-manufactured products sold, and approximately 97.6%, 83.4% and 59.5%, respectively, of our turnover derived from sales of our self-manufactured products during each of the two years ended 31 December 2013 and 2014 and the three months ended 31 March 2015. According to Prismark, SOD series packages are among the most commonly accepted and widely utilised mainstream discrete semiconductor packages. For each of the two years ended 31 December 2013 and 2014 and the three months ended 31 March 2015, SOD123FL contributed to approximately 97.6%, 51.0% and 28.7%, respectively, of our turnover derived from sales of self-manufactured products, the highest among all our self-manufactured products. We have increased our SOD series packages offerings during the year ended 31 December 2014 and introduced SOD123HE and SOD323 in the year. In order to diversify our product offerings, we also introduced SOT series packages during the year ended 31 December 2014, which, according to Prismark, represent smaller packages and more cost competitive as compared to SOD series packages. SOT series packages collectively accounted for approximately 4.8% and 14.5%, respectively, of the total units of our self-manufactured products sold, and approximately 3.1% and 10.6%, respectively, of our turnover derived from sales of our self-manufactured products for the year ended 31 December 2014 and the three months ended 31 March 2015.

Trading Business

Since our production facilities commenced operations in September 2013, trading of products sourced from third-party suppliers are incidental and generally coupled with sales of our self-manufactured products in order to satisfy our customers' solution kits requirements. Upon request of our customers, we assist them in sourcing from third-party suppliers and sell to them, when applicable, the semiconductors they specifically require, usually integrated/bundled with our self-manufactured products. As a result, sales volume and average sales prices of the products sourced from third-party suppliers vary year-on-year or period-over-period depending on the specifications of the products requested by our customers in the year or period.

The following table sets out turnover, sales volume and average sales prices of our trading products by package types during the Track Record Period:

	Year ended 31 December								Three months ended 31 March							
	2013				2014				2014				2015			
	Turnover	% of total turnover	Units sold	Avg. sales price[1]	Turnover	% of total turnover	Units Sold	Avg. sales price[1]	Turnover	% of total turnover	Units Sold	Avg. sales price[1]	Turnover	% of total turnover	Units Sold	Avg. sales price[1]
	(HK$'000)		*('000)*	*(HK$)*	*(HK$'000)*		*('000)*	*(HK$)*	*(HK$'000)*		*('000)*	*(HK$)*	*(HK$'000)*		*('000)*	*(HK$)*
										(unaudited)						
SOD Series	18,880	55.1	339,708	0.0556	34,398	43.8	463,500	0.0742	6,129	43.6	110,758	0.0553	9,477	55.8	120,895	0.0784
SOT Series	6,049	17.6	113,368	0.0534	19,351	24.6	332,747	0.0582	3,793	27.0	65,481	0.0579	3,764	22.1	90,641	0.0415
TO Series	508	1.5	10,430	0.0487	8,320	10.6	44,461	0.1871	641	4.6	9,189	0.0698	585	3.4	7,619	0.0768
DO Series	3,715	10.8	121,152	0.0307	5,775	7.3	157,342	0.0367	1,285	9.1	34,578	0.0372	1,065	6.3	27,455	0.0388
Others	5,143	15.0	137,687	0.0374	10,734	13.7	250,537	0.0428	2,219	15.7	47,485	0.0467	2,103	12.4	51,027	0.0412
Total	34,295	100.0	722,345	–	78,578	100.0	1,248,587	–	14,067	100.0	267,491	–	16,994	100.0	297,637	–

Note:

(1) The average sales prices vary year-on-year or period-over-period depending on the mix of different types trading products within the year or period.

Turnover by Geography

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$'000)* (unaudited)	*% of total turnover*	*(HK$'000)*	*% of total turnover*
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.

During the Track Record Period, our PRC market contributed approximately 42.0%, 43.6% and 40.8%, 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 our Korean market contributed approximately 28.3%, 36.5% and 38.9%, respectively, of our total turnover for same periods. The turnover contributed by Hong Kong increased during the Track Record Period, however, to a lesser extent than the increases in other markets. As a result, the turnover attributable to Hong Kong as a percentage of our total turnover decreased during the Track Record Period.

The following table sets out our customer base by geographic locations during the Track Record Period:

	Year ended 31 December		Three months ended 31 March	
	2013	2014	2014	2015
Number of customers				
PRC	18	41	21	46
Korea	7	18	9	19
Hong Kong	4	6	4	6
Other Asian market[1]	6	11	7	11
Europe[2] and others	1	2	2	2
Total	36	78	43	84

Notes:

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

(2) The relevant European country is Germany.

Turnover by Sales and Distribution Channels

Our sales were made through our direct sales efforts and third-party agent during the Track Record Period. 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$'000)* (unaudited)	*% of total turnover*	*(HK$'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

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. Our turnover generated from customers referred by our third-party agent increased during the Track Record Period, primarily due to our continuous efforts to penetrate the Korean market through our third-party agent in Korea, which performs a useful role in identifying business and market opportunities and business networking. The turnover attributable to our direct sales efforts increased during the Track Record Period, however, to a lesser extent than the increases in turnover generated from customers referred by our third-party agent. As a result, the turnover attributable to our direct sales efforts as a percentage of our total turnover decreased during the Track Record Period.

Cost of Sales

Our cost of sales primarily consisted of material costs, manufacturing overhead and direct labour costs. The following table sets out a breakdown of our cost of sales during the Track Record Period:

	Year ended 31 December				Three months ended 31 March			
	2013		2014		2014		2015	
	(HK$'000)	*% of total cost of sales*	*(HK$'000)*	*% of total cost of sales*	*(HK$'000)* (unaudited)	*% of total cost of sales*	*(HK$'000)*	*% of total cost of sales*
Cost of sales								
Material costs	35,048	94.5	96,573	83.0	14,832	83.9	26,352	79.7
Manufacturing overhead	1,648	4.4	14,558	12.5	2,190	12.4	4,717	14.3
Direct labour costs	409	1.1	5,291	4.5	650	3.7	1,987	6.0
Total	37,105	100.0	116,422	100.0	17,672	100.0	33,056	100.0

Material Costs

Material costs mainly consisted of costs of (i) finished goods sourced from third-party suppliers and subsequently sold to our customers and (ii) raw materials consumed in manufacturing our self-manufactured products. Material costs accounted for approximately 94.5%, 83.0% and 79.7%, respectively of our total cost of sales for each of the two years ended 31 December 2013 and 2014 and the three months ended 31 March 2015. Our material costs increased during the Track Record Period, however, to a lesser extent than the increase in our manufacturing overhead and direct labour costs. As a result, our material costs as a percentage of our total cost of sales decreased during the Track Record Period. For each of the two years ended 31 December 2013 and 2014 and the three months ended 31 March 2015, our material costs represented approximately 76.7%, 60.6% and 53.8% of our turnover, respectively.

The following table sets forth 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	
	(HK$'000)	*% of total material costs*	*(HK$'000)*	*% of total material costs*	*(HK$'000)* (unaudited)	*% of total material costs*	*(HK$'000)*	*% of total material costs*
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

Since our production facilities commenced operations in September 2013, the material costs attributable to our manufacturing business increased as a percentage of our total material costs. The material costs attributable to our manufacturing business accounted for approximately 12.2%, 29.7% and 44.3%, respectively, of our total material costs for each of the two years ended 31 December 2013 and 2014 and the three months ended 31 March 2015, while the material costs attributable to our trading business accounted for approximately 87.8%, 70.3% and 55.7%, respectively, of our total material costs for the same periods. The primary raw materials for our manufacturing business include silicon dies, the functional unit of the semiconductor to be packaged, which is supplied in the form of silicon wafers, and interconnect materials such as leadframes, gold wires and moulding compound.

Manufacturing Overhead

Manufacturing overhead consisted of product packaging costs of our self-manufactured products, subcontracting charges, depreciation of plant and machineries, utilities and other miscellaneous production costs, which accounted for approximately 4.4%, 12.5% and 14.3%, respectively, of our total cost of sales for each of 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, our manufacturing overhead represented approximately 3.6%, 9.1% and 9.6%, respectively, of our turnover. The increase of manufacturing overhead as a percentage of turnover during the Track Record Period was in line with our increased sales volume of self-manufactured products.

Direct Labour Costs

Direct labour costs consisted of salaries and benefits for employees in our manufacturing operations which accounted for approximately 1.1%, 4.5% and 6.0%, respectively, of our total cost of sales for each of 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, our direct labour costs represented approximately 0.9%, 3.3% and 4.1% of our turnover, respectively. The increase of direct labour costs as a percentage of turnover during the Track Record Period was in line with our increased sales volume of self-manufactured products.

Gross Profit and Gross Profit Margin

Our gross profit, which is our turnover for the relevant period less our cost of sales, were approximately HK$8.6 million, HK$42.9 million and HK$16.0 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 were approximately 18.8%, 26.9% and 32.6% respectively, for the same periods.

The following table sets out the gross profit and gross profit margin of our two business segments during the Track Record Period:

	Year ended 31 December						Three months ended 31 March					
	2013			2014			2014			2015		
	Gross profit (HK$'000)	*% of gross profit*	*Gross profit margin (%)*	*Gross profit (HK$'000)*	*% of gross profit*	*Gross profit margin (%)*	*Gross profit (HK$'000)*	*% of gross profit*	*Gross profit margin (%)*	*Gross profit (HK$'000)*	*% of gross profit*	*Gross profit margin*
								(unaudited)				
Manufacturing business	5,075	59.1	44.6	32,163	75.0	39.8	3,824	67.8	41.4	13,663	85.6	42.7
Trading business	3,505	40.9	10.2	10,738	25.0	13.7	1,813	32.2	12.9	2,304	14.4	13.6
Total	8,580	100.0	–	42,901	100.0	–	5,637	100.0	–	15,967	100.0	–

Since our production facilities commenced operations in September 2013, an increasing portion of our gross profit has been generated from sales of our self-manufactured products. For each of the two years ended 31 December 2013 and 2014 and the three months ended 31 March 2015, gross profit generated from sales of our self-manufactured products accounted for approximately 59.1%, 75.0% and 85.6%, respectively, of our total gross profit, while gross profit generated from trading of products sourced from third-party suppliers accounted for approximately 40.9%, 25.0% and 14.4%, respectively, of our total gross profit for the same periods. 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 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.

The following table also sets out our gross profit and gross profit margin by geographic locations during the Track Record Period:

	Year ended 31 December						Three months ended 31 March					
	2013			2014			2014			2015		
	Gross profit (HK$'000)	% of gross profit	Gross profit margin (%)	Gross profit (HK$'000)	% of gross profit	Gross profit margin (%)	Gross profit (HK$'000)	% of gross profit (unaudited)	Gross profit margin (%)	Gross profit (HK$'000)	% of gross profit	Gross profit margin (%)
Geographic locations												
PRC	5,565	64.9	29.1	18,654	43.5	26.8	3,829	68.0	32.0	5,725	35.9	28.6
Korea	1,166	13.6	9.0	15,972	37.2	27.4	998	17.7	14.0	6,659	41.7	34.9
Hong Kong	1,183	13.8	16.3	4,913	11.5	33.0	492	8.7	30.5	1,041	6.5	41.7
Other Asian markets[1]	575	6.7	10.7	1,457	3.4	25.6	30	0.5	11.4	2,090	13.1	39.0
Europe[2] and others	91	1.0	9.8	1,905	4.4	17.3	288	5.1	12.3	452	2.8	21.7
Total:	8,580	100.0	–	42,901	100.0	–	5,637	100.0	–	15,967	100.0	–

Notes:

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

(2) The relevant European country is Germany.

Our gross profit and gross profit margin of the respective geographic locations varied during the Track Record Period, primarily because (i) the customers and their needs differed across different geographic locations and (ii) the products mix sold to customers in each of geographic locations also varied during the Track Record Period.

Selling and Distribution Costs

Our selling and distribution costs primarily consisted of commissions, freight and transportation expenses, advertising expenses and other miscellaneous expenses. Commissions related to payments to a third-party agent who assists us in obtaining new customers based on a percentage of turnover generated from the actual sales to the customers referred by such third-party agent. Freight and transportation expenses related to expenses incurred in the delivery of our products to our customers. Advertising expenses included expenses incurred for advertising and marketing of our products and our participation in industry trade shows. For each of the two years ended 31 December 2013 and 2014 and the three months ended 31 March 2015, our selling and distribution costs represented approximately 0.7%, 3.4% and 4.9% of our turnover, respectively. The increase of selling and distribution costs as a percentage of turnover during the Track Record Period was in line with the growth of our businesses.

The following table sets out a breakdown of our selling and distribution costs during the Track Record Period:

	Year ended 31 December				Three months ended 31 March			
	2013		2014		2014		2015	
	(HK$'000)	*% of selling and distribution costs*	*(HK$'000)*	*% of selling and distribution costs*	*(HK$'000)* (unaudited)	*% of selling and distribution costs*	*(HK$'000)*	*% of selling and distribution costs*
Selling and distribution costs								
Commissions	103	32.4	4,035	73.9	283	76.5	1,957	81.5
Freight and transportation expenses	150	47.2	1,054	19.3	80	21.6	292	12.2
Advertising expenses	–	–	173	3.2	–	–	86	3.6
Other expenses	65	20.4	195	3.6	7	1.9	66	2.7
Total	318	100.0	5,457	100.0	370	100.0	2,401	100.0

Other Income

Other income primarily represented interest income derived from our bank deposits. We had bank interest income of approximately HK$2,000, HK$7,000 and HK$11,000, respectively, for each of the two years ended 31 December 2013 and 2014 and the three months ended 31 March 2015. Our interest income increased as a result of our increased bank deposits during the Track Record Period. Other income for the three months ended 31 March 2015 also included foreign currency exchange gains of approximately HK$73,000.

Administrative Expenses

Our administrative expenses primarily consisted of staff costs, professional fees, depreciation, office expenses, rental expenses and other miscellaneous operating expenses. Staff costs mainly included salary and benefits paid to our administrative and management personnels. Professional fees mainly included certain recognised professional fees incurred in relation to the Listing. For each of the two years ended 31 December 2013 and 2014 and the three months ended 31 March 2015, our administrative expenses represented approximately 4.6%, 9.8% and 11.8%, respectively, of our turnover. The increase in administrative expenses as a percentage of turnover during the Track Record Period primarily reflected administrative expenses incurred by our Company in connection with the Listing in 2014 and the three months ended 31 March 2015.

The following table sets out a breakdown of our administrative expenses during the Track Record Period:

	Year ended 31 December				Three months ended 31 March			
	2013		2014		2014		2015	
	(HK$'000)	*% of administrative expenses*	*(HK$'000)*	*% of administrative expenses*	*(HK$'000)* (unaudited)	*% of administrative expenses*	*(HK$'000)*	*% of administrative expenses*
Administrative Expenses								
Staff costs	1,106	53.1	7,405	47.3	842	56.3	2,677	46.1
Professional fees	375	18.0	4,355	27.8	49	3.3	2,183	37.6
Depreciation	12	0.6	1,044	6.7	73	4.9	340	5.8
Office expenses	104	5.0	855	5.5	183	12.2	132	2.3
Rental expenses	71	3.4	282	1.8	71	4.7	71	1.2
Other expenses	415	19.9	1,713	10.9	278	18.6	404	7.0
Total	2,083	100.0	15,654	100.0	1,496	100.0	5,807	100.0

Income Tax Expenses

Income tax expenses primarily represented the current and deferred tax. Under the rules and regulations of the Cayman Islands and BVI, we are not subject to any income tax in the Cayman Islands and BVI. We carry on our business in the PRC and Hong Kong and are subject to PRC enterprise income tax and Hong Kong profits tax in respect of our profits arising in or derived from the PRC and Hong Kong from such business. Hong Kong profits tax has been provided for at the rate of 16.5% for the two years ended 31 December 2013 and 2014 and the three months ended 31 March 2015 on the estimated assessable profits arising in or derived from Hong Kong. Our subsidiary in the PRC is subject to PRC enterprise income tax at the rate of 25% for the two years ended 31 December 2013 and 2014 and the three months ended 31 March 2015. During each of the two years ended 31 December 2013 and 2014 and the three months ended 31 March 2015, the effective tax rate of our Group was approximately 22.2%, 25.6% and 26.0% respectively.

Deferred tax is recognised on temporary difference between the carrying amounts of assets and liabilities in the combined financial statements and the corresponding tax bases used in the computation of taxable profit. For further details, please refer to notes 8 and 19 to "*Appendix I – Accountants' Report*" of this prospectus.

Our Directors confirm that our Group had paid all relevant taxes and was not subject to any disputes or tax issues during the Track Record Period.

PERIOD TO PERIOD COMPARISON OF RESULTS OF OPERATIONS

Three months ended 31 March 2015 compared with three months ended 31 March 2014

Turnover

Our turnover increased by approximately 110.3%, or HK$25.7 million, 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. Such increase was primarily due to our increases in turnover generated from both sales of our self-manufactured products and trading of semiconductors sourced from third-party suppliers, as a result of our continuous efforts to expand our customer base during the Track Record Period. The number of our customers increased from 43 as at 31 March 2014 to 84 as at 31 March 2015.

Our turnover attributable to sales of self-manufactured products increased significantly by approximately 247.8%, or HK$22.8 million, from approximately HK$9.2 million for the three months ended 31 March 2014 to approximately HK$32.0 million for the three months ended 31 March 2015, primarily due to our increased production capacity of self-manufactured products, in particular, the high margin and high growth DFN series packages.

Since our production facilities commenced operations in September 2013, we trade products sourced from third-party suppliers when our customers request us to assist with their solution kits requirements, usually integrated/bundled with our self-manufactured products. As a result, although trading of products sourced from third-party suppliers decreased as a percentage of our total turnover, the turnover attributable to trading of products sourced from third-party suppliers increased by approximately 20.6%, or HK$2.9 million, from approximately HK$14.1 million for the three months ended 31 March 2014 to approximately HK$17.0 million for the three months ended 31 March 2015, which was in line with the growth in sales of our self-manufactured products during the same periods.

Turnover by Geography

The PRC and Korean markets collectively accounted for approximately 82.0% and 79.7%, respectively, of turnover for each of the three months ended 31 March 2014 and 2015. Our sales in the PRC market increased by approximately 66.7%, or HK$8.0 million, from approximately HK$12.0 million for the three months ended 31 March 2014 to approximately HK$20.0 million for the three months ended 31 March 2015. Our sales in the Korean market also experienced a significant increase by approximately 169.0%, or HK$12.0 million, from approximately HK$7.1 million for the three months ended 31 March 2014 to approximately HK$19.1 million for the three months ended 31 March 2015. The increases in these markets were primarily due to our continuous efforts to expand our business in these regions.

Turnover by Sales and Distribution Channels

We primarily sell our products to customers through direct sales. Our turnover attributable to our direct sales efforts increased by approximately 39.5%, or HK$7.9 million, from approximately HK$20.0 million for the three months ended 31 March 2014 to approximately HK$27.9 million for the three months ended 31 March 2015, primarily reflecting our efforts to expand our direct sales customer base. Our turnover generated from customers referred by our third-party agent also increased significantly by approximately 539.4%, or HK$17.8 million, from approximately HK$3.3 million for the three months ended 31 March 2014 to approximately HK$21.1 million for the three months ended 31 March 2015, primarily due to an increase in the number of end-customers referred by such third-party agent.

Cost of Sales

Our cost of sales increased significantly by approximately 87.0%, or HK$15.4 million, from approximately HK$17.7 million for the three months ended 31 March 2014 to approximately HK$33.1 million for the three months ended 31 March 2015, primarily reflecting our increased material costs in relation to both our trading and manufacturing business as well as direct labour costs and manufacturing overhead in relation to our manufacturing business.

Material Costs

Our material costs increased by approximately 78.4%, or HK$11.6 million, from approximately HK$14.8 million for the three months ended 31 March 2014 to approximately HK$26.4 million for the three months ended 31 March 2015, primarily due to our increased sales volume of both self-manufactured products and products sourced from third-party suppliers.

The material costs attributable to our manufacturing business increased by approximately 350.0%, or HK$9.1 million, from approximately HK$2.6 million for the three months ended 31 March 2014 to approximately HK$11.7 million for the three months ended 31 March 2015, primarily due to increased consumption of raw materials, in particular wafers.

The material costs attributable to our trading business increased by approximately 19.5%, or HK$2.4 million, from approximately HK$12.3 million for the three months ended 31 March 2014 to approximately HK$14.7 million for the three months ended 31 March 2015, primarily due to increased purchase of semiconductors complementary to our increased sales of self-manufactured products, to satisfy our customers' solution kits requirements.

Direct Labour Costs

Our direct labour costs increased by approximately 185.7%, or HK$1.3 million, from approximately HK$0.7 million for the three months ended 31 March 2014 to approximately HK$2.0 million for the three months ended 31 March 2015, primarily due to an increase in our manufacturing employees from 89 as at 31 March 2014 to 187 as at 31 March 2015.

Manufacturing Overhead

Our manufacturing overhead increased by approximately 113.6%, or HK$2.5 million, from approximately HK$2.2 million for the three months ended 31 March 2014 to approximately HK$4.7 million for the three months ended 31 March 2015, primarily reflecting (i) an increase in depreciation of plant and machineries as a result of our addition of equipment and machineries at our production facilities; (ii) an increase in product packaging costs in relation to our self-manufactured products; (iii) an increase in subcontracting charges; and (iv) an increase in our utility expenses.

Gross Profit and Gross Profit Margin

As a result of the foregoing, our gross profit increased by approximately 185.7%, or HK$10.4 million, from approximately HK$5.6 million for the three months ended 31 March 2014 to approximately HK$16.0 million for the three months ended 31 March 2015, which was in line with our increased turnover. Our gross profit margin increased from approximately 24.2% for the three months ended 31 March 2014 to approximately 32.6% for the three months ended 31 March 2015, primarily due to the increased proportion of our self-manufactured products sold, for which we generally achieve higher gross profit margin compared to our trading products.

Our gross profit margin for self-manufactured products remained relatively stable at approximately 41.4% for the three months ended 31 March 2014 and approximately 42.7% for the three months ended 31 March 2015.

Our gross profit margin for trading of products sourced from third-party suppliers remained relatively stable at approximately 12.9% for the three months ended 31 March 2014 and approximately 13.6% for the three months ended 31 March 2015.

Selling and Distribution Costs

Our selling and distribution costs increased by approximately 500.0%, or HK$2.0 million, from approximately HK$0.4 million for the three months ended 31 March 2014 to approximately HK$2.4 million for the three months ended 31 March 2015, primarily reflecting an increase in commissions paid/payable to our third-party agent.

Administrative Expenses

Our administrative expenses increased by approximately 286.7%, or HK$4.3 million, from approximately HK$1.5 million for the three months ended 31 March 2014 to approximately HK$5.8 million for the three months ended 31 March 2015, primarily reflecting (i) increases in salaries and employee benefit expenses of managerial and staff cost recorded under administrative expenses and depreciation of office equipment, which were in line with the increased capital expenditure in back office administrative assets during the three months ended 31 March 2015, and (ii) an increase in professional fees in respect of the Listing.

Income Tax Expenses

Our income tax expenses increased by approximately 122.2%, or HK$1.1 million, from approximately HK$0.9 million for the three months ended 31 March 2014 to approximately HK$2.0 million for the three months ended 31 March 2015. Such increase in our income tax expenses was in line with the increase in profit before tax during the period.

Profit for the Period and Net Profit Margin

As a result of the foregoing, our profit for the period increased by approximately 100.0% or HK$2.9 million from approximately HK$2.9 million for the three months ended 31 March 2014 to approximately HK$5.8 million for the three months ended 31 March 2015.

Net profit margin for the period is calculated by dividing the profit for the period by turnover. Our net profit margins were approximately 12.3% and 11.8%, respectively, for the three months ended 31 March 2014 and 2015. The decrease in our net profit margin was primarily due to expenses incurred in relation to the Listing during the three months ended 31 March 2015. If the expenses incurred in relation to the Listing were excluded, our net profit margin would be approximately 16.0%, a slight increase from approximately 12.3% for the three months ended 31 March 2014, which was in line with the improvement of our gross profit margin for the same periods.

Year ended 31 December 2014 compared with year ended 31 December 2013

Turnover

Our turnover increased by approximately 248.6%, or HK$113.6 million, 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. Such increase was primarily due to increases in turnover generated from both sales of our self-manufactured products and trading of semiconductors sourced from third-party suppliers, as a result of our continuous efforts to expand our customer base during the Track Record Period. The number of our customers increased from 36 as at 31 December 2013 to 78 as at 31 December 2014.

Our turnover attributable to sales of self-manufactured products increased significantly by approximately 607.9%, or HK$69.3 million, from approximately HK$11.4 million for the year ended 31 December 2013 to approximately HK$80.7 million for the year ended 31 December 2014, primarily due to our increased production capacity of self-manufactured products, in particular, new package series rolled out during the year ended 31 December 2014.

Since our production facilities commenced operations in September 2013, we trade products sourced from third-party suppliers when our customers request us to assist with their solution kits requirements, usually integrated/bundled with our self-manufactured products. As a result, although trading of products sourced from third-party suppliers decreased as a percentage of our total turnover, the turnover attributable to trading of products sourced from third-party suppliers increased by approximately 129.2%, or HK$44.3 million, from approximately HK$34.3 million for the year ended 31 December 2013 to approximately HK$78.6 million for the year ended 31 December 2014, which was in line with the growth in sales of our self-manufactured products during the same periods.

Turnover by Geography

The PRC and Korean markets collectively accounted for approximately 70.3% and 80.1%, respectively, of turnover for each of the two years ended 31 December 2013 and 2014. Our turnover derived from sales in the PRC market increased significantly by approximately 262.0%, or HK$50.3 million, from approximately HK$19.2 million for the year ended 31 December 2013 to approximately HK$69.5 million for the year ended 31 December 2014. Our turnover derived from sales in the Korean market also experienced a significant increase by approximately 351.2%, or HK$45.3 million, from approximately HK$12.9 million for the year ended 31 December 2013 to approximately HK$58.2 million for the year ended 31 December 2014. The increases in these markets were primarily due to our continuous efforts to expand our business in these regions.

Turnover by Sales and Distribution Channels

We primarily sell our products to customers through direct sales. Our turnover attributable to our direct sales efforts increased significantly by approximately 156.2%, or HK$67.8 million, from approximately HK$43.4 million for the year ended 31 December 2013 to approximately HK$111.2 million for the year ended 31 December 2014, primarily reflecting our efforts to expand our direct sales customer base. Our turnover generated from customers referred by our third-party agent also increased significantly by approximately 1,991.3%, or HK$45.8 million, from approximately HK$2.3 million for the year ended 31 December 2013 to approximately HK$48.1 million for the year ended 31 December 2014, primarily due to an increase in the number of end-customers referred by such third-party agent.

Cost of Sales

Our cost of sales increased significantly by approximately 213.7%, or HK$79.3 million, from approximately HK$37.1 million for the year ended 31 December 2013 to approximately HK$116.4 million for the year ended 31 December 2014, primarily reflecting our increased material costs in relation to both our trading and manufacturing business as well as direct labour costs and manufacturing overhead in relation to our manufacturing business.

Material Costs

Our material costs increased by approximately 176.0%, or HK$61.6 million, from approximately HK$35.0 million for the year ended 31 December 2013 to approximately HK$96.6 million for the year ended 31 December 2014, primarily due to our increased sales volume of both self-manufactured products and products sourced from third-party suppliers.

The material costs attributable to our manufacturing business increased by approximately 567.4%, or HK$24.4 million, from approximately HK$4.3 million for the year ended 31 December 2013 to approximately HK$28.7 million for the year ended 31 December 2014, primarily due to increased consumption of raw materials, in particular wafers.

The material costs attributable to our trading business increased by approximately 120.1%, or HK$37.0 million, from approximately HK$30.8 million for the year ended 31 December 2013 to approximately HK$67.8 million for the year ended 31 December 2014, primarily due to increased purchase of semiconductors complementary to our increased sales of self-manufactured products to satisfy our customers' solution kits requirements.

Direct Labour Costs

Our direct labour costs increased significantly by approximately 1,225.0%, or HK$4.9 million, from approximately HK$0.4 million for the year ended 31 December 2013 to approximately HK$5.3 million for the year ended 31 December 2014, primarily due to an increase in our manufacturing employees from 37 as at 31 December 2013 to 160 as at 31 December 2014.

Manufacturing Overhead

Our manufacturing overhead increased significantly by approximately 812.5%, or HK$13.0 million, from approximately HK$1.6 million for the year ended 31 December 2013 to approximately HK$14.6 million for the year ended 31 December 2014, primarily reflecting (i) an increase in product packaging costs in relation to our self-manufactured products; (ii) an increase in depreciation of plant and machineries as a result of our addition of equipment and machineries at our production facilities; (iii) an increase in subcontracting charges; and (iv) an increase in our utility expenses.

Gross Profit and Gross Profit Margin

As a result of the foregoing, our gross profit increased by approximately 398.8%, or HK$34.3 million, from approximately HK$8.6 million for the year ended 31 December 2013 to approximately HK$42.9 million for the year ended 31 December 2014, which was primarily in line with our increased turnover. Our gross profit margin increased from approximately 18.8% for the year 31 December 2013 to approximately 26.9 % for the year ended 31 December 2014, primarily due to the increased proportion of self-manufactured products sold, for which we generally achieve higher gross profit margin compared to our trading products.

Our gross profit margin for self-manufactured products decreased from approximately 44.6% for the year ended 31 December 2013 to approximately 39.8% for the year ended 31 December 2014, primarily due to our different mix of self-manufactured products sold in the respective year.

Our gross profit margin for trading of products sourced from third-party suppliers increased from approximately 10.2% for the year ended 31 December 2013 to approximately 13.7% for the year ended 31 December 2014, primarily due to our different product mix sold in the respective year.

Selling and Distribution Costs

Our selling and distribution costs increased by approximately 1,733.3%, or HK$5.2 million, from approximately HK$0.3 million for the year ended 31 December 2013 to approximately HK$5.5 million for the year ended 31 December 2014, primarily reflecting an increase in commissions paid/payable to our third-party agent.

Administrative Expenses

Our administrative expenses increased by approximately 647.6%, or HK$13.6 million, from approximately HK$2.1 million for the year ended 31 December 2013 to approximately HK$15.7 million for the year ended 31 December 2014, primarily reflecting (i) increases in salaries and benefit expenses of managerial and staff cost recorded under administrative expenses and depreciation of office equipment, which were in line with the increased capital expenditure in back office administrative assets during the year ended 31 December 2014, and (ii) an increase in professional fees in respect of the Listing.

Income Tax Expenses

Our income tax expenses increased by approximately 300.0%, or HK$4.2 million, from approximately HK$1.4 million for the year ended 31 December 2013 to approximately HK$5.6 million for the year ended 31 December 2014. Such increase in our income tax expenses was in line with the increase in profit before tax during the period.

Profit for the Year and Net Profit Margin

As a result of the foregoing, our profit for the year increased by approximately 237.5% or HK$11.4 million from approximately HK$4.8 million for the year ended 31 December 2013 to approximately HK$16.2 million for the year ended 31 December 2014.

Net profit margin for the year is calculated by dividing the profit for the year by turnover. Our net profit margins were approximately 10.5% and 10.2%, respectively, for each of the two years ended 31 December 2013 and 2014. The slight decrease in our net profit margin was primarily due to expenses incurred in relation to the Listing during the year ended 31 December 2014. If the expenses incurred in relation to the Listing were excluded, our net profit margin would be approximately 12.3%, a slight increase from approximately 10.5% for the year ended 31 December 2013, which was in line with the improvement of our gross profit margin for the same periods.

CERTAIN ITEMS OF COMBINED STATEMENTS OF FINANCIAL POSITION

Plant and Equipment

Our plant and equipment primarily consisted of plant and machineries, leasehold improvements and furniture, fixtures and equipment. As at 31 December 2013 and 2014 and 31 March 2015, our plant and equipment amounted to approximately HK$22.4 million, HK$55.7 million and HK$54.6 million, respectively. Such increase in our plant and equipment was primarily due to addition of equipment and machineries to further grow our manufacturing business, partially offset by depreciation of plant and machineries.

Inventories

The following table sets out a breakdown of our inventories during the Track Record Period:

	As at 31 December		As at 31 March
	2013	**2014**	**2015**
	(HK$'000)	*(HK$'000)*	*(HK$'000)*
Raw materials	1,657	6,547	5,236
Finished goods	1,069	4,909	6,442
	2,726	11,456	11,678

Our inventories consisted of raw materials and finished goods. Raw materials mainly include silicon dies, the functional unit of the semiconductor to be packaged, which is supplied in the form of silicon wafers, and interconnect materials such as leadframes, gold wires and moulding compound, which are used in our manufacturing business. Finished goods include both our self-manufactured products and semiconductors that we source from third-party suppliers for our trading business.

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. Please refer to the section headed "*Business – Inventory Management*" of this prospectus for details of our inventory management policies. We made no provision for inventory obsolescence during the Track Record Period.

Our inventories increased from approximately HK$2.7 million as at 31 December 2013 to approximately HK$11.5 million as at 31 December 2014, primarily due to increased purchase of raw materials and semiconductors to support the growth of our manufacturing business and the complementary trading business. Our inventories remained relatively stable at approximately HK$11.5 million and HK$11.7 million, respectively, as at 31 December 2014 and 31 March 2015.

The following table sets out our average inventory and average inventory turnover days during the Track Record Period:

	Year ended 31 December		Three Months ended 31 March
	2013	**2014**	**2015**
	(HK$'000)	*(HK$'000)*	*(HK$'000)*
Average inventory[1]	1,387	7,091	11,567
Average inventory turnover days[2]	13.6 days	22.2 days	31.5 days

Notes:

(1) Average inventory equals inventory at the beginning of the period plus inventory at the end of the period, divided by two.

(2) Average inventory turnover days are calculated by dividing average inventory by cost of sales, multiplying the resulting value by 365 days for each of the two years ended 31 December 2013 and 2014 and by 90 days for the three months ended 31 March 2015.

Our average inventory turnover days were approximately 13.6 days, 22.2 days and 31.5 days, respectively, for each of the two years ended 31 December 2013 and 2014 and the three months ended 31 March 2015. The increase in our average inventory turnover days from approximately 13.6 days in 2013 to approximately 22.2 days in 2014 was primarily due to the fact that our production facilities commenced operations in September 2013, and we generally have longer average inventory turnover days for our manufacturing business. The increase in our average inventory turnover days from approximately 22.2 days in 2014 to approximately 31.5 days in the three months ended 31 March 2015 was primarily due to our reduced inventory consumption during the Chinese New Year holidays.

The following table sets out the ageing analysis of our inventory as at the dates indicated:

	As at 31 December		As at 31 March
	2013	2014	2015
	(HK$'000)	*(HK$'000)*	*(HK$'000)*
0-3 months	2,726	8,832	9,190
4-6 months	–	1,459	2,029
7-12 months	–	815	459
Over 1 year	–	350	–
	2,726	11,456	11,678

As at 31 March 2015, approximately 78.7% of our inventories were aged within three months. As at 31 July 2015, approximately HK$10.8 million or 92.3% of our inventory as at 31 March 2015 had been used or consumed subsequent to 31 March 2015.

Trade and Other Receivables

The following table sets out our trade and other receivables and prepayments during the Track Record Period:

	As at 31 December		As at 31 March
	2013	2014	2015
	(HK$'000)	*(HK$'000)*	*(HK$'000)*
Trade receivables	24,214	42,601	44,515
Deposits and other receivables	30	1,444	2,314
Prepayments	4,278	9,725	7,505
	28,522	53,770	54,334
Less: Non-current rental prepayments[(1)]	(212)	–	–
	28,310	53,770	54,334

Note:

(1) Balance as at 31 December 2013 represented rental prepayment for our Group's office premises in Hong Kong for the period from January to September 2015 and thus were classified as non-current asset as at 31 December 2013.

Our trade receivables related to goods sold to our customers and consisted of outstanding amounts receivables by us from our customers. Deposits and other receivables mainly represented PRC export tax refund arising from sales to non-PRC customers. Deposits and other receivables increased from approximately HK$0.03 million as at 31 December 2013 to approximately HK$1.4 million as at 31 December 2014 and further increased to approximately HK$2.3 million as at 31 March 2015, primarily due to our increased sales to non-PRC customers. Prepayments mainly represented PRC value-added tax deductibles. Our trade receivables increased from approximately HK$24.2 million as at 31 December 2013 to approximately HK$42.6 million as at 31 December 2014 and further increased to approximately HK$44.5 million as at 31 March 2015, primarily due to our increased sales volume of both self-manufactured products and products sourced from third-party suppliers during the Track Record Period. Prepayments increased from approximately HK$4.3 million as at 31 December 2013 to approximately HK$9.7 million as at 31 December 2014, primarily due to our increased capital investment in equipment and machineries in 2014, which after offsetting our PRC value-added taxes for products sold in the same year, resulted in an increase in our PRC value-added tax deductibles. Prepayments decreased from approximately HK$9.7 million as at 31 December 2014 to approximately HK$7.5 million as at 31 March 2015, primarily due to our relatively low capital investment in equipment and machineries during the three months ended 31 March 2015, resulting in a decrease in our PRC value-added tax deductibles.

We do not hold any collateral over our trade and other receivables. No impairment of trade and other receivables had been recognised during the Track Record Period or as at 31 December 2013 and 2014 and 31 March 2015.

The following table sets out our average trade receivables and average trade receivable turnover days for the periods indicated:

	Year ended 31 December		Three months ended 31 March
	2013	**2014**	**2015**
	(HK$'000)	*(HK$'000)*	*(HK$'000)*
Average trade receivables[(1)]	12,366	33,408	43,558
Average trade receivables turnover days[(2)]	98.8 days	76.5 days	80.0 days

Notes:

(1) Average trade receivables equals trade receivables at the beginning of the period plus trade receivables as at the end of the period, divided by two.

(2) Average trade receivables turnover days are calculated by dividing average trade receivables by turnover, multiplying the resulting value by 365 days for each of the two years ended 31 December 2013 and 2014 and by 90 days for the three months ended 31 March 2015.

For new or less reputable customers, we usually require payment on delivery and no credit or grace 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, we grant credit periods ranging from 0 to 90 days.

Our average trade receivables turnover days were approximately 98.8 days, 76.5 days and 80.0 days, respectively, for each of the two years ended 31 December 2013 and 2014 and the three months ended 31 March 2015. Our average trade receivables turnover day for the year ended 31 December 2013 was significantly longer than the credit period granted to our customers and the decrease in our average trade receivables turnover days from approximately 98.8 days in 2013 to approximately 76.5 days in 2014 was primarily due to the fact that our turnover was more evenly recorded throughout the year ended 31 December 2014 as compared to the year ended 31 December 2013, in which the majority of our turnover for the year was recorded in the last quarter of the year after our production facilities commenced operations in September 2013, resulting in a significant balance of current portion of trade receivables as at 31 December 2013 that were not due for collection. The slight increase in our average trade receivable turnover days from approximately 76.5 days in 2014 to approximately 80.0 days in the three months ended 31 March 2015 was primarily due to delay of payments by certain customers during the Chinese New Year holidays.

Our average trade receivable turnover days for the year ended 31 December 2014 and the three months ended 31 March 2015 were generally in line with the credit period granted to our customers. Approximately 94.1%, 97.3% and 96.1% of the balance of our trade receivables as at 31 December 2013 and 2014 and as at 31 March 2015 was current as at the respective dates.

The following table sets out the ageing analysis of our trade receivables based on invoice date, which approximated the respective revenue recognition dates, as at the dates indicated:

	As at 31 December		**As at 31 March**
	2013	**2014**	**2015**
	(HK$'000)	*(HK$'000)*	*(HK$'000)*
Within 3 months	22,889	40,368	39,258
Over 3 months but less than 6 months	1,325	2,179	5,112
Over 6 months but less than 1 year	–	54	145
	24,214	42,601	44,515

Our Group's policy for impairment loss on trade receivables is based on an evaluation of collectability and aged analysis of the receivables which requires the use of judgment and estimates. Impairment would applied to the receivables when there are events or changes in circumstances indicate that the balances may not be collectible. Our management closely reviews the trade receivables balances and any overdue balances on an ongoing basis and assessments are made by our management on the collectability of overdue balances.

The following table sets out the ageing analysis of our trade receivables based on their respective due date as at the dates indicated:

	As at 31 December		As at 31 March
	2013	**2014**	**2015**
	(HK$'000)	*(HK$'000)*	*(HK$'000)*
Current	22,784	41,464	42,758
Overdue within 3 months	1,430	1,137	1,612
Overdue 3 months to 6 months	–	–	145
	24,214	42,601	44,515

Trade receivables that were neither past due nor impaired related to a wide range of customers for whom there was no recent history of default. As at 31 December 2013 and 2014 and 31 March 2015, the amounts past due but not impaired of our trade receivables were approximately HK$1.4 million, HK$1.1 million and HK$1.8 million respectively. Receivables that were past due but not impaired related to a number of independent customers that have no recent history of default.

As at 31 July 2015, approximately HK$42.2 million or 94.8% of our trade receivables outstanding as at 31 March 2015 were settled.

Trade and Other Payables

The following table sets out our trade and other payables during the Track Record Period:

	As at 31 December		As at 31 March
	2013	**2014**	**2015**
	(HK$'000)	*(HK$'000)*	*(HK$'000)*
Trade payables	23,731	41,239	42,305
Payables for plant and equipment	12,359	5,366	1,912
Receipts in advance	–	9	1,440
Accruals and other payables	1,369	5,885	6,258
	37,459	52,499	51,915

Trade payables related to the purchase of raw materials and semiconductors from our suppliers. Payables for plant and equipment related to the purchase of equipment and machineries for our manufacturing business. Receipts in advance related to customers' deposits. Accruals and other payables primarily related to our operating expenses including salaries and benefits for our employees and commissions to our third-party agent. Our trade payables increased from approximately HK$23.7 million as at 31 December 2013 to approximately HK$41.2 million as at 31 December 2014 and further increased to approximately HK$42.3 million as at 31 March 2015, primarily due to increased purchase of raw materials and semiconductors during the Track Record Period to support the growth of our manufacturing business and the complementary trading business. Our payables for plant and equipment decreased from approximately HK$12.4 million as at 31 December 2013 to approximately HK$5.4 million as at 31 December 2014, primarily due to the fact that our purchase of equipment and machineries were more evenly made throughout the year ended 31 December 2014 as compared to the year ended 31 December 2013, in which our purchase of equipment and machineries for the year was primarily made in the last quarter of the year after our production facilities commenced operations in September 2013, resulting in a significant balance of payables for plant and equipment as at 31 December 2013 that were not due for payment. Our payables for plant and equipment decreased to approximately HK$1.9 million as at 31 March 2015, primarily due to our relatively low investment for equipment and machineries during the three months ended 31 March 2015. Our accruals and other payables increased from approximately HK$1.4 million as at 31 December 2013 to approximately HK$5.9 million as at 31 December 2014 and further increased to approximately HK$6.3 million as at 31 March 2015, which was in line with the growth of our business operations during the Track Record Period.

The following table sets out our average trade payables and average trade payables turnover days for the periods indicated:

	Year ended 31 December		There months ended 31 March
	2013	**2014**	**2015**
	(HK$'000)	*(HK$'000)*	*(HK$'000)*
Average trade payables[(1)]	12,122	32,485	41,772
Average trade payables turnover days[(2)]	119.2 days	101.8 days	113.7 days

Notes:

(1) Average trade payables equals trade payables at the beginning of the period plus trade payables as at the end of the period, divided by two.

(2) Average trade payables turnover days are calculated by dividing average trade payables by cost of sales, multiplying the resulting value by 365 days for each of the two years ended 31 December 2013 and 2014 and by 90 days for the three months ended 31 March 2015.

Our suppliers generally grant us credit terms ranging from 30 to 120 days. Our average trade payables turnover days were approximately 119.2 days, 101.8 days and 113.7 days, respectively, for each of the two years ended 31 December 2013 and 2014 and the three months ended 31 March 2015. The decrease in our average trade payables turnover days from approximately 119.2 days in 2013 to approximately 101.8 days in 2014, primarily due to the fact that our purchase of raw materials for our manufacturing business was more evenly made throughout the year ended 31 December 2014 as compared to the year ended 31 December 2013, in which the majority of our procurement of raw materials for the year was made in the last quarter of the year after our production facilities commenced operations in September 2013, resulting in a significant balance of trade payables as at 31 December 2013 that was not due for payment. The increase in our average trade payables turnover days from approximately 101.8 days in 2014 to approximately 113.7 days for the three months ended 31 March 2015 was primarily due to a relatively longer period of time we took to settle payments to certain suppliers due to the Chinese New Year holidays.

Our average trade payables turnover days during the Track Record Period were in line with the credit period granted by our suppliers, primarily due to the settlement practice of our PRC subsidiary, which generally pays our suppliers only upon receipt of VAT invoices from such suppliers. Generally our suppliers prepare and issue VAT invoices to us and we settle the invoices in accordance with the credit terms granted to us by such suppliers.

The following table sets out the ageing analysis of our trade payables as at the dates indicated:

	As at 31 December		As at 31 March
	2013	2014	2015
	(HK$'000)	*(HK$'000)*	*(HK$'000)*
Within 3 months	18,165	36,249	32,546
Over 3 months but less than 6 months	5,566	4,979	9,759
Over 6 months but less than 1 year	–	11	–
	23,731	41,239	42,305

As at 31 July 2015, approximately HK$40.6 million or 96.0% of our trade payables outstanding as at 31 March 2015 were settled.

Pledged Deposit

A deposit in the amount of approximately HK$5.0 million was pledged to a bank to secure short-term bank facilities granted to our Group as at 31 December 2014 and 31 March 2015, respectively. The pledged deposit carried fixed interest rate of 0.75% per annum during the year ended 31 December 2014 and the three months ended 31 March 2015.

Bank Balances and Cash

Our bank balances and cash increased by approximately HK$5.1 million from approximately HK$6.2 million as at 31 December 2013 to approximately HK$11.3 million as at 31 December 2014, and further increased to approximately HK$16.2 million as at 31 March 2015, which was in line with our increased turnover and profit. Cash at bank carried interest at floating rates based on daily bank deposit rates for the two years ended 31 December 2013 and 2014 and the three months ended 31 March 2015.

Amounts Due to Shareholders

Our amounts due to shareholders primarily consisted of amounts due to shareholders, which were unsecured and interest-free advances that are repayable on demand from our Controlling Shareholders for our general financing needs. Our net balance of amounts due to shareholders increased from approximately HK$17.1 million as at 31 December 2013 to approximately HK$60.0 million as at 31 December 2014 and 31 March 2015 to meet needs of our growing business.

Subsequent to 31 March 2015 and before the Listing, approximately HK$60.0 million of amounts due to shareholders have been capitalised on 22 September 2015 pursuant to the Reorganisation.

NET CURRENT LIABILITIES

The following table sets out our current assets and current liabilities as at the dates indicated:

	As at 31 December		As at 31 March	As at 31 July
	2013	**2014**	**2015**	**2015**
	(HK$'000)	*(HK$'000)*	*(HK$'000)*	*(HK$'000)* (unaudited)
Current assets				
Inventories	2,726	11,456	11,678	11,958
Trade and other receivables	28,310	53,770	54,334	57,454
Pledged deposit	–	5,000	5,009	5,019
Bank balances and cash	6,162	11,274	16,223	19,861
Total current assets	37,198	81,500	87,244	94,292
Current liabilities				
Trade and other payables	37,459	52,499	51,915	51,777
Amounts due to shareholders	17,136	60,000	60,000	60,000
Tax payables	1,382	3,412	3,970	5,733
Total current liabilities	55,977	115,911	115,885	117,510
Net current liabilities	(18,779)	(34,411)	(28,641)	(23,218)

We recorded net current liabilities of approximately HK$18.8 million, HK$34.4 million and HK$28.6 million, respectively, as at 31 December 2013 and 2014 and 31 March 2015. Our net current liabilities position was primarily due to amounts due to shareholders of approximately HK$17.1 million, HK$60.0 million and HK$60.0 million being recorded as current liabilities as at the respective dates, which represented unsecured and interest-free advances that are repayable on demand from our Controlling Shareholders to finance the continued growth of our manufacturing business, including increase of our production capacity through the addition of new equipment and machineries. The outstanding amounts due to shareholders of approximately HK$60.0 million as at 31 March 2015 were subsequently capitalised on 22 September 2015 pursuant to the Reorganisation. If such amounts were capitalised on 31 December 2013 and 2014 and 31 March

2015, respectively, (assuming no other changes) we would have recorded net current liabilities of approximately HK$1.6 million, net current assets of approximately HK$25.6 million and HK$31.4 million as at the respective dates. The increase in net current liabilities from HK$18.8 million as at 31 December 2013 to HK$34.4 million as at 31 December 2014 was primarily due to an increase in amounts due to shareholders and an increase in trade and other payables, partially offset by increases in trade and other receivables and inventories. Our net current liabilities slightly decreased from approximately HK$34.4 million as at 31 December 2014 to approximately HK$28.6 million as at 31 March 2015, primarily due to an increase in our bank balances and cash resulting from our profitable business operation.

Based on our unaudited management accounts, as at 31 July 2015, being the latest practicable date for the purpose of this statement, our net current liabilities were approximately HK$23.2 million, consisting of approximately HK$94.3 million of current assets and approximately HK$117.5 million of current liabilities. Our net current liabilities position as at 31 July 2015 was primarily due to amounts due to shareholders being recorded as current liabilities. Our outstanding amounts due to shareholders were capitalised on 22 September 2015 pursuant to the Reorganisation. If such amounts were capitalised on 31 July 2015 (and assuming no other changes) we would have recorded net current asset of approximately HK$36.8 million as at 31 July 2015.

STATEMENT OF INDEBTEDNESS

As at the close of business on 31 August 2015, being the latest practicable date for the purpose of this statement of indebtedness prior to printing of this prospectus, the indebtedness of our Group comprised outstanding amounts due to shareholders of approximately HK$60.0 million which were unsecured, interest-free and repayable on demand.

As at the close of business on 31 August 2015, our Group had unutilised overdraft facilities of HK$5.0 million which were secured by our Group's pledged deposit of approximately HK$5.0 million.

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities, our Group did not have any debt securities issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptance or acceptance credits, debentures, mortgages, charges, hire purchase or finance lease commitments, guarantees or contingent liabilities.

Our Directors confirmed that there has been no material adverse change in the indebtedness and contingent liabilities of our Group since 31 August 2015, being the date for determining our Group's indebtedness up to the date of this prospectus.

During the Track Record Period and up to the Latest Practicable Date, our Directors confirm that we did not breach any restrictive covenants relating to any outstanding debts.

LIQUIDITY AND CAPITAL MANAGEMENT

Overview

During the Track Record Period and up to the Latest Practicable Date, we have been generally financing our operations through a combination of, internally generated cash flows and advances from Shareholders. Following completion of the Placing, we expect our capital and operating cash flow requirements will be funded principally through internally generated cash flows and the net proceeds from the Placing. Our Directors believe that in the long-term, our operation will be funded by internally generated cash flows and, if necessary, additional equity financing or bank borrowings. Our ability to fund our working capital needs, repay our indebtedness and finance other obligations depend on our future operating performance and cash flow, which are in turn subject to prevailing economic conditions, the level of spending by our customers and other factors, many of which are beyond our control. Any future significant acquisition or expansion may require additional capital, and we cannot assure you that such capital will be available to us on acceptable terms, if at all. In general, we have the ability to generate adequate cash from our operations to fund our ongoing operating cash needs. We may use short-term bank borrowings to finance operations and repay indebtedness once our funding position is in surplus. We have not experienced and do not expect to experience any difficulties meeting our obligations as they become due.

Working Capital Management

We manage our capital to ensure that the Group will be able to continue as a going concern while maximising the return to our Shareholders through optimising of the debt and equity balance. The capital structure of our Group consists of amounts due to shareholders, net of cash and cash equivalents and equity attributable to owners of our Company, comprising issued share capital and reserves. Our Directors review the capital structure of our Group periodically. As part of this review, our Directors consider the cost of capital and the risks associated with each class of capital. Based on recommendations of our Directors, we will balance our overall capital structure through new share issues. Our Directors will also consider the raise of borrowings as second resource of capital. Our Directors also endeavour to ensure the steady and reliable cash flows from the normal business operation.

Working Capital Sufficiency

After taking into consideration the financial resources available to our Group, including our internally generated cash, our available credit and financing facilities and the estimated net proceeds from the Placing, and in the absence of unforeseeable circumstances, our Directors confirm, and the Sole Sponsor concurs, that we have sufficient working capital for our present requirements for at least the next 12 months from the date of this prospectus. The Sole Sponsor is of the view that our Directors have prepared the working capital sufficiency statement above after due and careful enquiry.

Thereafter, we expect to finance our operations and our debt service requirements with net cash flows generated from our operations and, if required, debt or equity financing. Our ability to obtain additional funding required for increased capital expenditure in the future beyond our anticipated cash needs for the next 12 months following the date of this prospectus, however, is subject to a variety of uncertainties, including the future results of our operations, financial condition and cash flows and economic, political and other conditions in the PRC and elsewhere. The issue of additional equity or equity-linked securities may result in additional dilution to our Shareholders.

CASH FLOW

The following table sets out a summary of our net cash flow from the audited combined statements of cash flows for the periods indicated:

	Year ended 31 December		Three months ended 31 March	
	2013	**2014**	**2014**	**2015**
	(HK$'000)	*(HK$'000)*	*(HK$'000)* (unaudited)	*(HK$'000)*
Net cash generated from operating activities	675	11,658	17,659	10,063
Net cash used in investing activities	(11,628)	(44,410)	(19,346)	(5,103)
Net cash generated from (used in) financing activities	17,115	37,864	9,525	(9)
Net increase in cash and cash equivalents	6,162	5,112	7,838	4,951
Cash and cash equivalents at beginning of year/period	–	6,162	6,162	11,274
Exchange difference	–	–	–	(2)
Cash and cash equivalents at end of year/period	6,162	11,274	14,000	16,223

Net Cash Generated from Operating Activities

We derive our cash inflows from operations principally from the receipts in respect of the sales of our products. Our cash outflows from operations are principally payments for purchases of raw materials and semiconductors, selling and distribution expenses, administrative expenses and other operating expenses.

For the three months ended 31 March 2015, our net cash generated from operating activities was approximately HK$10.1 million, primarily reflecting a profit before tax of approximately HK$7.8 million as adjusted by depreciation of plant and equipment of approximately HK$1.8 million and the increase in our net working capital of approximately HK$2.0 million, less payment of taxes of approximately HK$1.5 million. The increase in our working capital was primarily due to the stabilisation of our manufacturing operations thereby reducing the working capital requirements.

For the year ended 31 December 2014, our net cash generated from operating activities was approximately HK$11.7 million, primarily reflecting a profit before tax of approximately HK$21.8 million as adjusted by depreciation of plant and equipment of approximately HK$5.1 million and the decrease in our working capital of approximately HK$12.0 million, less payment of income taxes of approximately HK$3.2 million. The decrease in our working capital was primarily due to more working capital was deployed when our Group increased the scale of our manufacturing operations.

For the year ended 31 December 2013, our net cash generated from operating activities was approximately HK$0.7 million, primarily reflecting a profit before tax of approximately HK$6.2 million as adjusted by depreciation of plant and equipment of approximately HK$0.7 million and the decrease in our working capital of HK$6.2 million.

Net Cash Used in Investing Activities

During the Track Record Period, our cash flows used in investing activities were principally used in purchasing plant and equipment to cater for our growing production needs of our manufacturing business.

For the three months ended 31 March 2015, our net cash used in investing activities was approximately HK$5.1 million, primarily consisting of settlement of payables for plant and equipment of approximately HK$3.5 million in relation to our manufacturing business.

For the year ended 31 December 2014, our net cash used in investing activities was approximately HK$44.4 million, primarily consisting of acquisition of plant and equipment of approximately HK$31.7 million and settlement of payables for plant and equipment of approximately HK$12.4 million in relation to our manufacturing business.

For the year ended 31 December 2013, our net cash used in investing activities was approximately HK$11.6 million, primarily consisting of acquisition of plant and equipment of approximately HK$10.4 million in relation to our manufacturing business.

Net Cash Generated from Financing Activities

During the Track Record Period, our cash flows generated from financing activities primarily consisted of advances from shareholders

For the three months ended 31 March 2015, we did not have any material cash transactions under financing activities.

For the year ended 31 December 2014, our net cash generated from financing activities was approximately HK$37.9 million, primarily comprising advances from shareholders of approximately HK$42.9 million.

For the year ended 31 December 2013, our net cash generated from financing activities was approximately HK$17.1 million which primarily represented the advances from shareholders.

CAPITAL EXPENDITURE

During the Track Record Period, we have incurred capital expenditure mainly for the purchase of equipment and machineries amounting to approximately HK$22.8 million, HK$38.3 million and HK$0.8 million, respectively. We currently plan to use approximately HK$2.2 million, HK$15.9 million and HK$12.0 million during each of the years ending 31 December 2015, 2016 and 2017, respectively, to primarily purchase equipment and machineries after Listing. Our Directors believe that such capital expenditure budget will be sufficient for our expected expenditure for the year ending 31 December 2015.

We anticipate that the funds required for such capital expenditure will be financed by cash generated from operations and the net proceeds from the Placing. It should be noted that the current plan with respect to future capital expenditure may be subject to change based on the implementation of our business plan, including but not limited to, potential acquisitions, the progress of our capital projects, market conditions and the outlook of our future business conditions. As we will continue to expand, additional capital expenditure may be incurred and we may consider raising additional funds as and when appropriate. Our ability in obtaining additional funding in the future is subject to a variety of uncertainties including but not limited to, our further operation results, financial condition and cash flows, economic, political and other conditions in the PRC and Hong Kong.

COMMITMENTS

Capital Commitments

The following table sets out our capital commitments in respect of acquisition of plant and equipment as at the dates indicated:

	As at 31 December		As at 31 March	As at 31 July
	2013	**2014**	**2015**	**2015**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Contracted but not provided for	1,205	1,482	997	34

The capital commitments described above primarily related to purchase of equipment and machineries to expand the production capacity of our production facilities. We intend to fund these commitments with cash generated from our operations and net proceeds from the Placing.

Lease Commitment

Operating lease payments represented rentals payable by our Group for certain of our office and production plant. Leases are negotiated for original terms ranging from two to ten years and rentals are fixed over the lease term of the respective lease. The following table sets out our future minimum lease payment under non-cancellable operating lease as at the end of the relevant reporting periods:

	As at 31 December		As at 31 March	As at 31 July
	2013	**2014**	**2015**	**2015**
	(HK$'000)	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*
Within one year	519	517	1,475	1,564
In the second to fifth year inclusive	2,076	2,069	3,107	2,766
Over five years	2,249	1,724	1,588	1,422
	4,844	4,310	6,170	5,752

CONTINGENT LIABILITIES

As at 31 March 2015, we did not have any significant contingent liabilities.

SENSITIVITY ANALYSES

The following is a sensitivity analysis of the impacts of hypothetical fluctuations in material costs on our gross profit and net profit for each period during the Track Record Period. The sensitivity analysis is performed for reasonably possible changes in assumptions regarding the material costs of each product segment with all other assumptions held constant.

	Hypothetical fluctuation	Year ended 31 December 2013		Year ended 31 December 2014		Three Months ended 31 March 2015	
	Increase/ (decrease) in percentage	*Increase/ (decrease) in gross profit*	*Increase/ (decrease) in net profit*	*Increase/ (decrease) in gross profit*	*Increase/ (decrease) in net profit*	*Increase/ (decrease) in gross profit*	*Increase/ (decrease) in net profit*
	%	*%*	*%*	*%*	*%*	*%*	*%*
Material costs:							
Self-manufactured products. .	5	(4.2)	(3.4)	(4.5)	(6.6)	(4.3)	(7.4)
Products sourced from third-party suppliers	5	(43.9)	(24.9)	(31.6)	(15.6)	(31.9)	(9.4)

Foreign Currency Sensitivity

We are mainly exposed to fluctuation against foreign currencies of RMB, US$ and HK$. The following table details our Group's sensitivity to a 5% increase and decrease in functional currency of respective group entities against the relevant foreign currencies. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 5% change in foreign currency rates.

A positive number below indicates an increase in post-tax profit where the functional currency of respective group entities weakens 5% against the relevant foreign currencies. For a 5% strengthening of the functional currency of respective group entities against the relevant foreign currencies, there would be an equal and opposite impact on the post-tax profit.

	As at 31 December		As at 31 March
	2013	**2014**	**2015**
	(HK$'000)	*(HK$'000)*	*(HK$'000)*
Effect on post-tax profit			
– US$	308	909	947
– RMB	24	325	107
– HK$	–	–	40

KEY FINANCIAL RATIOS

	As at/For the year ended 31 December		As at/For the three months ended 31 March
	2013	2014	2015
Liquidity ratios			
Current ratio(1)	0.66	0.70	0.75
Quick ratio(2)	0.62	0.60	0.65
Capital adequacy ratios			
Gearing ratio(3)	337.9%	281.5%	224.0%
Net Debt-to-equity ratio(4)	216.4%	205.2%	144.8%
Profitability ratios			
Return on total assets(5)	7.9%	11.8%	–
Return on equity(6)	94.8%	76.1%	–

Notes:

(1) Current ratio is calculated by dividing total current assets by total current liabilities as at the end of the respective year/period.

(2) Quick ratio is calculated by dividing total current assets less inventories by total current liabilities as at the end of the respective year/period.

(3) Gearing ratio is calculated by dividing total borrowings by total equity as at the end of the respective year/period multiplying the resulting value by 100.0%.

(4) Net debt-to-equity ratio is calculated by dividing net debts (including all borrowings net of bank balances and cash and pledged bank deposit) by total equity as at the end of the respective year/period, multiplying the resulting value by 100.0%.

(5) Return on total assets is calculated by dividing profit for the year by total assets and multiplying the resulting value by 100.0%.

(6) Return on equity is calculated by dividing profit for the year by total equity and multiplying the resulting value by 100.0%.

Current Ratio

As at 31 December 2013 and 2014 and 31 March 2015, our current ratio was approximately 0.66, 0.70 and 0.75, respectively. The slight increase in our current ratio from approximately 0.66 as at 31 December 2013 to approximately 0.70 as at 31 December 2014 primarily reflected an increase in our current liabilities mainly attributable to an increase in amounts due to shareholders to finance the continued growth of our manufacturing business, partially offset by the increase in our current assets mainly attributable to the increases in our trade and other receivables and inventories. The increase in our current ratio from approximately 0.70 as at 31 December 2014 to approximately 0.75 as at 31 March 2015 primarily reflected an increase in our current assets mainly attributable to an increase in our trade and other receivables.

Amounts due to shareholders represented unsecured and interest-free advances that are repayable on demand from our Shareholders for our general financing needs. Such amounts were capitalised on 22 September 2015 pursuant to the Reorganisation. If the amounts due to shareholders is excluded from current liabilities, our current ratio would be approximately 0.96, 1.46 and 1.56, respectively, as at 31 December 2013 and 2014 and 31 March 2015.

Quick Ratio

As at 31 December 2013 and 2014 and 31 March 2015, our quick ratio was approximately 0.62, 0.60 and 0.65 respectively. If the amounts due to shareholders is excluded from current liabilities, our quick ratio would be approximately 0.89, 1.25 and 1.35, respectively, as at 31 December 2013 and 2014 and 31 March 2015, representing an increase in our current assets mainly attributable to an increase in our trade and other receivables.

Gearing Ratio

As at 31 December 2013 and 2014 and 31 March 2015, our gearing ratio was approximately 337.9%, 281.5% and 224.0%, respectively. The decrease in our gearing ratio from approximately 337.9% as at 31 December 2013 to approximately 281.5% as at 31 December 2014 was primarily due to the increase in our amount due to shareholders for financing the growth of our manufacturing operations was to a lesser degree compared to the increase in our retained profits. The decrease in our gearing ratio from approximately 281.5% as at 31 December 2014 to approximately 224.0% as at 31 March 2015 was primarily due to an increase in our retained profits while there was no additional shareholder's loan obtained.

Net Debt-to-Equity Ratio

As at 31 December 2013 and 2014 and 31 March 2015, our net debt to equity ratio was approximately 216.4%, 205.2%, and 144.8% respectively. The slight decrease in our net debt-to-equity ratio from approximately 216.4% as at 31 December 2013 to approximately 205.2% as at 31 December 2014 was primarily due to the increase in our net debt, which primarily reflected an increase in our amount due to shareholders to finance the growth of our manufacturing operations, was to a lesser degree compared to the increase in our total equity, which primarily reflected our increased retained profits. The decrease in our net debt-to-equity ratio from approximately 205.2% as at 31 December 2014 to approximately 144.8% as at 31 March 2015 was primarily due to an increase in our total equity and a decrease in net debt as a result of an increase in our bank balances and cash from our profitable operations.

Return on Total Assets

For each of the two years ended 31 December 2013 and 2014, our return on total assets was approximately 7.9% and 11.8% respectively. The increase in our return on total assets from approximately 7.9% as at 31 December 2013 to approximately 11.8% as at 31 December 2014 was primarily due to an increase in our retained profits.

Return on Equity

For each of the two years ended 31 December 2013 and 2014, our return on equity was approximately 94.8% and 76.1% respectively. The decrease in our return on equity from approximately 94.8% as at 31 December 2013 to approximately 76.1% as at 31 December 2014 was primarily due to an increase in our increased equity resulting from our increased profits.

OFF-BALANCE SHEET ARRANGEMENTS

During the Track Record Period and as at the Latest Practicable Date, we did not have any off-balance sheet arrangements.

QUALITATIVE AND QUANTITATIVE DISCLOSURE ABOUT MARKET RISK

Our major financial instruments include trade and other receivables, pledged deposit, bank balances and cash, trade and other payables and amounts due to shareholders and a related company, which expose us to a variety of financial risks, including interest rate risk, credit risk and liquidity risk.

Credit Risk

As at 31 December 2013 and 2014 and 31 March 2015, our maximum exposure to credit risk which will cause a financial loss to our Group due to failure to discharge an obligation by the counterparties was arising from the carrying amount of the respective recognised financial assets as stated in the statements of financial position.

In order to minimise the credit risk, our management has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, we review the recoverability of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, our Directors consider that our credit risk is significantly reduced.

We have concentration of credit risk as 30%, 14% and 17% respectively of the total trade receivables as at 31 December 2013 and 2014 and 31 March 2015 was due from our largest customer and 67%, 49% and 50% respectively of the total trade receivables as at 31 December 2013 and 2014 and 31 March 2015 was due from our five largest customers.

Our concentration of credit risk by geographical locations is mainly in the PRC, which accounted for approximately 64%, 44% and 53% of the total trade receivables as at 31 December 2013 and 2014 and 31 March 2015, respectively.

Our credit risk for bank balances is considered minimal as such amounts are placed with banks with high credit ratings assigned by international credit-rating agencies.

Currency Risk

We are exposed to foreign currency risks as several of our subsidiaries have foreign currency sales and purchases. Approximately 59%, 73% and 69%, respectively, of our Group's sales are 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 are not denominated in the group entity's respective functional currency in the years ended 31 December 2013 and 2014 and the three months ended 31 March 2015, respectively.

The carrying amounts of our Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Assets			Liabilities		
	As at 31 December		As at 31 March	As at 31 December		As at 31 March
	2013	2014	2015	2013	2014	2015
	(HK$'000)	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*
US$	7,495	26,300	29,033	128	4,520	6,351
RMB	1,486	7,786	3,393	907	–	828
HK$.	–	–	1,053	–	–	–
	8,981	34,086	33,479	1,035	4,520	7,179

We currently do not have a foreign currency hedging policy. However, our Directors continuously monitor the related foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Interest Rate Risk

We are exposed to cash flow interest rate risk in relation to variable-rate bank balances. Our policy is to keep our bank deposits and balances at floating rate of interests so as to minimise the fair value interest rate risk.

As at 31 December 2013, our Group was not exposed to any fair value interest rate risk. As at 31 December 2014 and 31 March 2015, we were exposed to fair value interest rate risk in relation to the fixed-rate pledged deposit.

We currently do not have an interest rate hedging policy. However, our management monitors interest rate exposure and will consider other necessary action when significant interest rate exposure is anticipated.

Our Directors considered that our exposure to interest rate risk is minimal due to the short maturity period of bank balances and thus no sensitivity analysis is presented.

Liquidity Risk

Individual operating entities within our Group are responsible for their own cash management, including the cash, current working capital and the raising of funds. Our policy is regularly monitors current and expected liquidity requirements to ensure that we maintain sufficient reserves of cash and current working capital to meet our liquidity requirements in the short and long term.

As at 31 December 2013 and 2014 and 31 March 2015, we had net current liabilities of approximately HK$18.8 million, HK$34.4 million and HK$28.6 million, respectively, which expose our Group to liquidity risk. In the management of our liquidity risk, we obtain financing deemed adequate by our management to finance our operations.

As at 31 December 2013 and 2014 and 31 March 2015, our remaining contractual maturities for our non-derivative financial liabilities, based on undiscounted cash flows of financial liabilities on the earliest date on which we can be required to pay, are within one year or repayable on demand.

DIVIDEND AND DISTRIBUTION

No dividends have been declared by our Company or the subsidiaries now comprising our Group to their then equity owners during the Track Record Period nor has any dividend been proposed after 31 March 2015. Declaration of dividends is subject to the discretion of our Directors, depending on our results of operations, working capital, financial position, future prospects, and capital requirements, as well as any other factors which our Directors may consider relevant. In addition, any declaration and payment as well as the amount of dividends will also be subject to the Memorandum and Articles of Association and the Companies Law. Any future declarations and payments of dividends may or may not reflect the historical declarations and payments of dividends and will be at the absolute discretion of our Directors. Currently, we do not have any predetermined dividend payout ratio.

Future dividend payments will also depend upon the availability of dividends we will receive from our subsidiary in the PRC. PRC laws require that dividends be paid only out of the net profit calculated according to PRC accounting principles, which differ in many aspects from the generally accepted accounting principles in other jurisdictions, including HKFRSs. PRC laws also require foreign investment enterprises to set aside part of their net profit as statutory reserves, which are not available for distribution as cash dividends. Distributions from our PRC subsidiary may also be subject to any restrictive covenants in bank credit facilities or loan agreements, convertible bond instruments or other agreements that we or they may enter into in the future.

Our ability to make dividend distribution may therefore be restricted. Please refer to the sub-section headed "*Risk Factors – Risks relating to conducting business in the PRC – We rely on dividends paid by our subsidiaries for our cash needs, and any limitation on the ability of our PRC subsidiary to make payments to us could have a material adverse effect on our ability to conduct our business*" of this prospectus for further details.

UNAUDITED PRO FORMA ADJUSTED TANGIBLE ASSETS

The following is an illustrative unaudited pro forma statement of adjusted combined net tangible assets of our Group prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Placing on the combined net tangible assets of our Group attributable to equity owners of our Company as if the Placing had taken place on 31 March 2015. This unaudited pro forma statement of adjusted combined net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the combined net tangible assets of our Group as at 31 March 2015 or any future dates following the Placing.

	Audited combined net tangible assets of our Group attributable to the owners of our Company as at 31 March 2015[(1)]	**Estimated net proceeds from the Placing**[(2)]	**Unaudited pro forma adjusted combined net tangible assets of our Group attributable to owners of our Company immediately after the completion of Placing**	**Unaudited pro forma adjusted combined net tangible assets of our Group attributable to the owners of our Company per Share as at 31 March 2015**[(3)]
	HK$'000	*HK$'000*	*HK$'000*	*HK$*
Based on the Placing Price of HK$0.20 per Placing Share	26,780	23,307	50,087	0.06
Based on the Placing Price of HK$0.30 per Placing Share	26,780	42,407	69,187	0.09

Notes:

(1) The audited combined net tangible assets of our Group attributable to the owners of our Company as at 31 March 2015 has been extracted from "*Appendix I – Accountants' Report*" of this prospectus.

(2) The estimated net proceeds of the Placing are based on 200,000,000 Placing Shares and the respective Placing Price of HK$0.2 or HK$0.3 per Placing Share (being the low end and the high end of the indicative price range of the Placing Shares in aggregate of approximately HK$23.3 million or HK$42.4 million respectively), after deduction of the underwriting commission and other related expenses payable by our Company in relation to the Placing. The estimated net proceeds do not take into account any shares which may be allotted and issued upon the exercise of any options granted the Share Options Scheme as described in the subsection headed "*Appendix IV – D. Other Information – Share Option Scheme*" of this prospectus.

(3) The unaudited pro forma adjusted combined net tangible assets of our Group attributable to the owners of the Company per Share is calculated based on 800,000,000 Shares which were in issue (including Shares in issue as at the date of this prospectus and those Shares which are expected to be issued pursuant to the Placing and the Capitalisation Issue but not taking into account any Shares which may be issued upon the exercise of any options granted under the Share Option Scheme).

(4) No adjustments have been made to the unaudited pro forma net tangible assets to reflect any trading results or other transactions of our Group entered into subsequent to 31 March 2015.

(5) Assuming the capitalisation of amounts due to the shareholders with the amount of HK$60.0 million was completed as at 31 March 2015, the unaudited pro forma adjusted combined net tangible assets of the Group attributable to owners of the Company immediately after the completion of placing based on HK$0.2 or HK$0.3 per Placing Share will become approximately HK$110.1 million and HK$129.2 million respectively and the unaudited pro forma adjusted combined net tangible assets of the Group attributable to owners of the Company per share based on HK$0.2 or HK$0.3 per Placing Share as at 31 March 2015 will become approximately HK$0.14 and HK$0.16 per share respectively.

DISTRIBUTABLE RESERVES

As at 31 March 2015, our Company did not have any distributable reserve available for distribution to Shareholders.

LISTING EXPENSES

We incurred approximately HK$5.4 million of listing expenses which was recorded as expenses during the Track Record Period. We expect to incur the listing expenses of approximately HK$22.6 million prior to completion of the Placing (based on the mid-point of our indicative Placing Price range), of which approximately HK$10.1 million will be recognised as expenses in our statements of profit or loss subsequent to the Track Record Period and approximately HK$7.1 million will be capitalised after the Listing. Expenses in relation to the Listing are non-recurring in nature. Our Board wishes to inform our Shareholders and potential investors that our financial performance and results of operations for the year ending 31 December 2015 will be significantly affected by the estimated expenses in relation to the Listing.

NO MATERIAL ADVERSE CHANGE

Since 31 March 2015, our turnover, gross profit and cost structure remained stable, and our business has grown in line with the historical trends and our expectations. Our Directors confirm that, having performed reasonable due diligence, there has been no material adverse change in our financial or trading position since 31 March 2015 (being the date to which our Company's latest combined financial results were prepared, as set out in "*Appendix I – Accountants' Report*" of this prospectus) up to the date of this prospectus.

DISCLOSURE UNDER RULES 17.15 TO 17.21 OF THE GEM LISTING RULES

Our Directors confirm that, as at the Latest Practicable Date, there were no circumstances which would give rise to the disclosure requirements under Rules 17.15 to 17.21 of the GEM Listing Rules.